DOCUMENT RESUME

ED 337 063 HE 024 872

AUTHOR Woodhall, Maureen
TITLE Student Loans in Higher Education: 2. Asia. Report of an IIEP Educational Forum. IIEP Dissemination Programme, Educational Forum Series, No. 2.
INSTITUTION United Nations Educational, Scientific, and Cultural Organization, Paris (France). International Inst. for Educational Planning.
PUB DATE 91
NOTE 101p.
AVAILABLE FROM International Institute for Educational Planning, 7-9 rue Eugene-Delacroix, 75116 Paris, France.
PUB TYPE Reports - Descriptive (141)

EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS Access to Education; Developed Nations; Developing Nations; Foreign Countries; Higher Education; *Paying for College; *Student Financial Aid; *Student Loan Programs; *Trend Analysis
IDENTIFIERS Australia; China; Hong Kong; India; Indonesia; Japan; Malaysia; Philippines; Singapore; Thailand

ABSTRACT

This report summarizes an educational forum organized by the International Institute for Educational Planning (IIEP) and held in Genting, Malaysia on November 6-8, 1990, to discuss the experience of student loans in Australia, the People's Republic of China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, and Thailand. In addition, the forum explored arguments for and against loans as a means of providing financial support for students, and examined the reasons that some countries in the region have adopted loans as a way of financing higher education, while others have rejected the idea. Following an introductory chapter, the report discusses: (1) the existing patterns of finance for higher education and systems of student support; (2) the reasons for interest in student loans; (3) the administration of loan programs; and (4) the feasibility of student loans and their role in educational finance. Appendices include summaries of student support systems from each of the countries involved in the study. Contains 17 references. (GLR)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED337063

IIEP Dissemination Programme

Educational Forum Series

No. 2

Student loans in higher education

2. Asia

A report by Maureen Woodhall

BEST COPY AVAILABLE

"PERMISSION TO REPRODUCE THIS MATERIAL IN **OTHER THAN PAPER COPY** HAS BEEN GRANTED BY

IIEP

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

X This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

HE 024 872

International Institute for Educational Planning

IIEP Dissemination Programme
Educational Forum Series, No. 2

Student loans in higher education
2. Asia

Report of an IIEP educational forum

by Maureen Woodhall

Paris 1991

International Institute for Educational Planning
(Established by Unesco)

The views and opinions expressed in this volume are those of the authors and do not necessarily represent the views of Unesco or of the IIEP. The designations employed and the presentation of material throughout this report do not imply the expression of any opinion whatsoever on the part of Unesco or IIEP concerning the legal status of any country, territory, city or area or its authorities, or concerning its frontiers or boundaries.

The costs of the educational forum and of this report have been covered through a grant-in-aid offered by Unesco and voluntary contributions made by several Member States of Unesco, the list of which will be found at the end of this volume.

This volume has been typeset using IIEP's computer facilities and has been printed in IIEP's printshop.

International Institute for Educational Planning
7 - 9 rue Eugène-Delacroix, 75116 Paris

© Unesco 1991

Contents

Preface			vii
Executive summary			1
Report of an IIEP educational forum			4
I.	Introduction		4
II.	Summary of the forum discussion		7
III.	Background orientation paper		20
IV.	Annexes		35
A.	Summaries of student support systems		35
	I.	Australia	37
	II.	People's Republic of China	41
	III.	Hong Kong	46
	IV.	India	51
	V.	Indonesia	57
	VI.	Japan	65
	VII.	The Republic of Korea	72
	VIII.	Malayasia	76
	IX.	Philippines	82
	X.	Singapore	85
	XI.	Thailand	89
B.	Participants in the forum		93

Preface

This booklet is the second of a series which is reporting on *Educational Forums* being organized by the IIEP on the issue of student loans in higher education. The first booklet, published in 1990, examined the situation in Europe and the USA. The present booklet reports on an educational forum held in Malaysia in November 1990 which focused on the situation of student loans in Asian countries; forums devoted to other regions of the world will follow.

The purpose of these meetings is to analyze the main issues raised by the introduction of student loans and discuss the ways these issues are being addressed both in industrialized and developing countries. Through open and candid discussion at the forums, and exchanges of experiences between countries, it is hoped to highlight the main implications for policy-making in higher education and draw some conclusions concerning the management of student loans in the future.

Each booklet in the series will normally include a report of the forum and summaries of the experiences of the countries represented. The IIEP, in embarking on this new initiative, hopes that the series will stimulate further co-operation in the form of exchanges of experiences among Unesco Member States.

Jacques Hallak
Director, IIEP

Executive summary

The International Institute for Educational Planning (IIEP) held a forum in Genting, Malaysia in November 1990, to examine international experience of student loans in Asia. Participants from ten countries attended the meeting from 6 - 8 November, 1990 and discussed the provision of loans and other forms of student support in Australia, the People's Republic of China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore and Thailand.

The forum was concerned with four main topics:

1. Existing patterns of finance for higher education and systems of student support

The countries represented at the forum differed considerably in patterns of finance and student support. Private sources of finance are very important in some countries, including Japan and the Philippines, where the majority of students attend private institutions and pay tuition fees. In the People's Republic of China and India, on the other hand, higher education is financed mainly by public expenditure. All the countries represented provide financial support for students, through scholarships, grants and, in some cases loans, but the proportion of students receiving assistance varies considerably.

Loans are the main form of financial support for students in Japan and Hong Kong; several countries provide a combination of grants, scholarships and loans and new loan schemes have recently been established in the People's Republic of China, Malaysia and the

Philippines. Australia has no system of student loans, but has recently introduced a new *Higher Education Contribution Scheme* (HECS) which provides an option for deferred payment of the required financial contribution, which will be collected after the student completes higher education, by means of the tax system. Thailand also proposes to increase tuition fees in public universities from 1991, as part of the Long Range Plan for Higher Education, and student loans will be introduced to help students pay the higher fees.

2. Reasons for interest in student loans

The meeting demonstrated strong interest in loans as a form of financial support for students in many countries in Asia. There are four main reasons for this interest:

(i) Financial pressures on public budgets, which mean that many governments are seeking ways to increase private contributions to the costs of higher education.
(ii) Changing educational priorities have resulted in several governments giving higher priority to primary and secondary education, and trying to increase cost recovery in higher education, in order to free resources for lower levels of education.
(iii) Attempts to improve the efficiency of higher education.
(iv) Concern about equity leads some advocates of loans to argue that loans will result in a more equitable sharing of the costs of higher education than a system of grants, scholarships and free tuition, financed from government revenue.

3. Administration of loan programmes

A wide variety of schemes exist, with different forms of administration, levels of subsidy and repayment terms. A major concern in many countries is how to reduce default, but while the proportion of loans that are actually repaid is low in India and in some other countries,

repayment rates are now very satisfactory in Hong Kong, Japan and Singapore. While there are no simple solutions, countries can benefit from international experience, and the forum provided a valuable opportunity for an exchange of information.

4. Feasibility of student loans

Although governments in some countries (e.g. Australia) have concluded that loan schemes have too many disadvantages to be feasible, and in Indonesia the government has recently abolished a government subsidized loan programme, several Asian countries have successful loan schemes and there is evidence that loans are feasible in many countries and that obstacles can be overcome. However, the obstacles are more severe in large countries with a relatively low level of economic development, such as India, than in small countries with a buoyant economy, such as Singapore.

Nevertheless, despite the problems in some countries, student loans remain an important form of student support in the Asian region, and their importance is likely to grow in the future.

Student loans in higher education
2. Asia

Report of an IIEP educational forum

by Maureen Woodhall

I. Introduction

This report provides a summary of an educational forum held in Genting Highlands, Malaysia, from 6-8 November 1990, to discuss experience of student loans in Asia. This formed one of a series of meetings organized by the IIEP on the subject of student loans as a means of financing higher education. The first meeting was held in Paris in September 1989, and a report of this was published by the IIEP.[1] The educational forum on student loans in Asia was the second in this series.

The purpose of the forum was to examine recent experience of student loan programmes in Asian countries, to explore arguments for and against loans as a means of providing financial support for students, and to understand the reasons why some countries in the region have adopted loans as a way of financing higher education, while others have rejected the idea.

Ten countries were represented at the meeting: Australia, the People's Republic of China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore and Thailand.[2] Seventeen participants attended the forum, including representatives of the ten Asian countries as well as specialists from the Asian Development Bank

1. Woodhall, M. (1990). *Student loans in higher education : 1. Western Europe and the USA*. Educational Forum Series N°. 1, IIEP, Paris.

2. Information was also received about the student loan system in the Republic of Korea, but the proposed participant was unable to attend the meeting.

(ADB), the World Bank (International Bank for Reconstruction and Development, IBRD) and the International Institute for Educational Planning (IIEP). All national participants provided information about student support in their countries in the form of descriptive papers and replies to a short questionnaire. ***Annex A*** provides a short summary of the student aid system in eleven Asian countries. A full list of participants is given in ***Annex B***.

Student loans are used quite extensively in Asia to provide financial support for students in higher education, to enable them to pay the costs of tuition and/or living expenses. In Japan, loan schemes for students have existed for over 100 years and loans are now the main form of student support. A loan programme was established in India in the 1950s and more recently loan schemes have been set up in the People's Republic of China, Hong Kong, Indonesia, the Republic of Korea, Malaysia, the Philippines and Singapore. Australia has recently introduced a Higher Education Contribution Scheme, under which students have an option to defer payment until after they leave higher education, when it will be collected through the tax system. Thailand does not yet have a loan programme, apart from a few small-scale loans offered by institutions or private banks in the case of financial hardship. There have been proposals to introduce loans in Thailand, however, and the meeting heard that the government of Thailand plans to introduce student loans in 1991, as part of a general reform of higher education finance.

The subject of student loans, and the problems associated with this form of finance, is of considerable interest to policy-makers in all the countries represented at the forum as well as in other countries in the region, including Pakistan, which has a small loan scheme, Papua New Guinea, which considered the feasibility of loans a few years ago, Macau, which has a system of loans and has recently introduced changes, Sri Lanka, which had a loan scheme which was regarded as unsuccessful and eventually abandoned, and Vietnam, where a recent World Bank report identified scholarships and living stipends for university students as an area "where reducing subsidization and increasing the contributions of beneficiaries might be possible".

The forum was concerned with four main topics:

(i) Existing sources and methods of finance for higher education and systems of financial support for students.
(ii) Reasons why countries have introduced, or are considering the introduction of student loans, and arguments for and against loans as a means of financing higher education.
(iii) The design and administration of student loan programmes, including particularly:
  - how to determine eligibility,
  - choice of administrative agency,
  - terms of loans and their repayment.
(iv) The feasibility of student loans and ways of overcoming problems or obstacles.

This report includes:

Summary of the forum discussions

Background orientation paper

Annexes:
Annex A: Summaries of student support systems in Australia, the People's Republic of China, Hong Kong, India, Indonesia, Japan, the Republic of Korea, Malaysia, the Philippines, Singapore and Thailand. These summaries of student loans and other forms of student support are edited extracts from country papers provided by the participants of the Education Forum. More detailed and extended versions of some of these papers will be published in a future edition of the journal, 'Higher Education'. For comparative purposes, figures are shown both in local currencies and in US$ (converted on the basis of exchange rates in March 1991.
Annex B: List of participants in the forum.

II. Summary of the forum discussions

Discussions took place over two and a half days and were informative and lively. A great diversity of experience was reviewed. Economic and educational conditions varied considerably in the countries represented at the forum, which ranged in size from India, with a student population of over 9 million in all forms of higher education, and Japan with over 3 million students, to Hong Kong and Singapore with enrolment of only about 55,000. The countries included the People's Republic of China, with a system of Communist government and central planning, and Japan and Singapore, with a strong commitment to market economies. Private universities are important in the Philippines and Japan, and non-existent in the People's Republic of China. It was clear from the start that there was no 'right answer' to the issues being discussed. Indeed, one of the main purposes of the meeting was to encourage an exchange of ideas and experiences from very different systems.

1. Existing patterns of financial support for students

The meeting started with participants describing the systems of higher education, finance and student support in their countries. This information is summarised briefly here and *Annex A* presents more details about the system of student support in each country.

Loans are the main form of financial support for students in Japan and Hong Kong, a combination of loans, grants and scholarships are used in several countries, including the Republic of Korea and Singapore and new schemes have recently been established in the People's Republic of China, Malaysia and the Philippines.

The most important source of financial assistance for students in *Japan* is the *Japanese Scholarship Foundation* which provides loans for both secondary school pupils and students in higher education. Two kinds of loans are available, interest-free loans for students from low-income families and loans at 3 per cent (Category II loans) for those

who are not eligible for interest-free loans. Altogether, about 14 per cent of Japanese students receive loans from the *Japanese Scholarship Foundation*.

In *Hong Kong* students receive grants towards tuition costs and loans to help finance living expanses. The loan scheme was established in 1969 to help students in financial need. A strict means test is applied and the proportion of students receiving loans has fallen sharply from 63 per cent in 1979 to 26 per cent in 1989. The scheme is popular and is regarded in Hong Kong as efficient and as contributing significantly to equity of access to higher education.

In *the Republic of Korea*, commercial banks provide loans, but the government subsidizes the interest rate, so that instead of paying 11 per cent, which would be required by the banks, students pay only 5.5 per cent, and the balance is financed by the government. In addition, there are a number of scholarship schemes for academically gifted and low-income students and the *National Agricultural Co-operative Federation* offers both short-term and long-term loans for children of members.

Singapore has two loan programmes: the *Student Loan Fund*, which has existed for some time and the newly established *Tuition Fee Loan*, introduced in 1989. In addition, the *Central Provident Fund* (CPF), which is a national insurance/pension fund now allows parents to draw on their CPF contributions, in order to finance their children's education. Singapore is a small country with a buoyant economy and well developed banking system. These features help to explain the scheme's success, and the very low default rate on student loans in Singapore.

Malaysia relied entirely on scholarships for needy students until 1987, when a new loan programme was established. This provides two kinds of loan: (1) an ordinary loan scheme for a small proportion of students and (2) a convertible loan, under which students who achieve high examination grades get part of their loan converted to a grant.

Private institutions are particularly important in the *Philippines*, where 85 per cent of all enrolments are in private universities or colleges. A new *Private Education Student Financial Assistance*

Programme (PESA) has been established after new legislation, the government *Assistance to Students and Teachers in Private Education Act*, was passed in 1989. Previously, there was a small scheme, the *Student Loan Fund*, which was established in 1976, but only a very small proportion of students were able to benefit from loans.

A long-established loan scheme exists in *India*, but this also provides loans for a very small proportion of all students in higher education. The total number of students has grown from 1.3 million in 1963, when the scheme was set up, to 9.2 million in 1988, but the annual number of loans provided under the *National Loan Scholarship Scheme* has remained fixed at 20,000. The Indian scheme is not regarded as very successful, in view of the high rate of default, and there have been a number of proposals to change the scheme or even abolish it.

The government of *Indonesia* has recently abolished a subsidized government student loan programme, *Kredit Mahasiswa Indonesia* (KMI) which was set up in 1982. The abolition of this scheme in 1990 was part of a new policy on banking deregulation, and a number of government subsidized credit programmes were abolished, including export credits and programmes for farmers and small-scale industry. The idea was to shift responsibility for loans to commercial banks, but so far the only new scheme to be set up by private banks is a small *Professional Student Loan Programme* (PSL) for post graduates taking professional courses, particularly in business administration. This is a small elite group of students with excellent employment prospects, and therefore the loans are considered by the banks to be a sound commercial investment.

While the Indonesian government has abolished its students loan scheme, other countries have recently established new programmes, for example Malaysia and the *People's Republic of China*, and others are intending to introduce loans, for example Thailand.

In the *People's Republic of China*, all levels of education have been free since the People's Republic was established in 1949, and until the 1980s all students in higher education received grants to cover their living expenses. In 1983, however, grants towards living costs were restricted to those in real financial need, although tuition and

accommodation remained free for all students. A loan scheme was introduced, on an experimental basis, in 1987. Up to 30 per cent of students in each institution may apply for a loan if they are unable to finance their living costs. The loans are strictly means-tested and are interest-free. So far 383,000 students have been granted loans.

So far in *Thailand*, student support has been mainly in the form of scholarships, with only a few 'emergency loans' provided by institutions for students with urgent financial problems. The government has recently signalled a change of policy, however, as a result of a review of higher education policy and the completion of a long-term plan for higher education in the next fifteen years. The plan emphasizes the need for universities to become self-reliant, through the development of new sources of finance, including the raising of tuition fees. A student loan scheme has been proposed to assist students with the payment of higher fees.

The only country represented at the meeting that has no student loan programme is *Australia*, but a newly established *Higher Education Contribution Scheme* (HECS) provides the option of deferred payment of the required contribution, through the income tax system. There has been considerable interest in many countries in the new Australian system, which is often referred to as a 'graduate tax', although the Australian government emphasizes it is not, strictly speaking, a tax, and indeed it has certain resemblances to an income-contingent student loan. From 1989, all students in higher education in Australia must pay the *Higher Education Contribution*, which is roughly equivalent to 20 per cent of the average costs of a degree course. Students have a choice between paying an 'up-front' lump sum contribution, with a 15 per cent discount, or deferring payment until after completion of their course, in which case they will pay between 2 and 4 per cent of their income each year until the debt is discharged.

This brief review of current systems of finance and student support demonstrates a high level of interest in student loans, whether on the part of governments with well-established programmes or governments considering reforms of existing patterns of finance and the introduction of loans as a means of cost recovery. The first item for discussion,

therefore, was what were the arguments for and against loans in countries that have recently introduced new programmes or considered the option of student loans.

2. Reasons for interest in student loans in Asia

There was general agreement that countries had introduced or were considering student loans for four main reasons:

- Financial pressures on public budgets, which mean that many governments are seeking ways to increase private contributions to higher education costs.
- Changing educational priorities mean that in several cases, governments are now giving higher priority to primary and lower secondary education, and see increased cost recovery in higher education as one option that may free resources for lower levels of education.
- Increased efficiency in higher education is a major goal in many countries and some governments believe that a system of loans can improve student motivation and completion rates and help to reduce drop-out.
- A more equitable distribution of higher education costs can be achieved through loans, according to some advocates of student loans.

In *Thailand*, the government is proposing to increase fees and introduce loans because of growing pressure on government spending, the high priority given to increasing compulsory education from 6 to 9 years, which will require a reduction in government subsidies for public universities and a belief that it is equitable to expect those who will enjoy a substantial private return from university education to contribute to its cost. There are three routes to higher education in Thailand: 18 public universities which operate selective admission policies, two open universities with unrestricted admissions, and 27 private universities. Competition for places at the 18 selective public universities is intense, and students who are able to gain a place enjoy a very substantial

subsidy, while those who study part-time at the open universities or who pay full-cost fees at private universities, contribute a far higher proportion of the costs of their education. Considerations of social justice, as well as financial pressure on the government budget, have led to a re-examination of the whole system of finance and subsidies for students. A new policy of increased cost recovery in public selective universities, and an emphasis on financial self-reliance, has been proposed by the committee responsible for the *Long-term Plan*. The committee considered the option of a shift towards full-cost fees for public, as well as private universities, but this was rejected in favour of a gradual increase in fees over the 15-year period, until fees in public selective universities will cover 50 per cent of costs, instead of 5-10 per cent as at present. To help students from poor families to meet these increased costs, the Government will introduce a loans scheme, as well as increasing scholarships.

In the *People's Republic of China*, also, the introduction of loans was part of a policy shift which requires greater private contributions towards the costs of education as a result of financial pressure on government budgets and high priority being given to improving primary and secondary education. An *Education Reform* announced in 1985 aims to universalize 9 years of compulsory education, and state and provincial governments are concerned about the high proportion of their limited education budgets being allocated to higher education. The introduction of loans in 1987 was seen as one way to increase revenue for universities without increasing the burden on public spending. Universities are allocated funds for loans to students, and are responsible for selecting needy recipients and collecting repayments. When the loan is repaid, the university is not required to reimburse the provincial or state government, but can use the funds to improve teaching conditions. So far, the scheme is very limited, but it is an interesting innovation for students to be given loans rather than grants, in a Socialist country, committed to public ownership.

Because of differences in political ideology, it is perhaps surprising to find the People's Republic of China and Thailand adopting a similar approach to student support. Whereas the idea of student loans has been

justified in Thailand, and in Singapore, by evidence of the high private rate of return to university education, the concept of the rate of return which individuals will enjoy as a result of investment in higher education is almost unknown in the People's Republic of China. In Japan, on the other hand, higher education is recognised as a profitable investment for the individual student and his or her family, and there is a strong belief that financial support for students should be in the form of loans, rather than grants. In the 1970s, government subsidies for higher education were increased, including subsidies for private as well as public universities. In the 1980s, pressures on government spending have led to a shift towards higher private contributions again, and the creation of a new kind of Category II student loan in 1984 can be seen as part of this trend. Students with Category II loans must pay interest, whereas the older Category I loans are interest free.

The idea that loans can help improve efficiency in higher education has been expressed in both *Indonesia* and *Malaysia*. The introduction of loans in Indonesia in 1982, was seen as one way of using the government's newly increased oil revenues to improve efficiency in higher education by providing financial support for students to help reduce their length of study. Under the KMI scheme, loans were available for students in their final years of study, to help them to complete their degree course. It was hoped that this would reduce dropout. However, problems of default, concerns about the difficulties of administering the loan scheme and decreased government revenues as a result of the fall in oil prices, led to the abolition of the scheme in 1990.

In *Malaysia*, also, the government hopes that the newly established loan scheme can increase efficiency by improving student motivation. Students who receive a convertible loan know that if they complete their course of study in the stipulated period of time, and achieve high grades in their final examination, part of their debt will be cancelled.

Finally, loans have been advocated in some countries as a way of increasing equity. The aim of the student loan programme in *Hong Kong*, for example, is to ensure that no eligible student who has been offered a place in an institution of tertiary education will be unable to accept it for lack of means. Many countries attempt to achieve this by making higher

their living expenses, but advocates of loans argue that repayable loans are a more equitable form of finance than grants, scholarships and free tuition. There is evidence in many countries that those most likely to benefit from higher education are the children of upper-income or at least well-to-do parents. Free tuition and grants, at the expense of taxpayers, mean a transfer of income from those who pay taxes but do not benefit from higher education to those who, in the future, will enjoy high incomes, as a result of their education. For this reason, 'social justice' is given as one of the main justifications for an increase in fees and the introduction of loans in *Thailand*. Similarly, in the *Philippines* a 'socialised tuition scheme' has been proposed in the University of the Philippines, under which students will be expected to pay tuition fees in accordance with paying capacity, which will mean that children of wealthy parents will pay fees, while poor students will receive financial assistance.

The *Higher Education Contribution Scheme* in *Australia*, was also proposed on grounds of increasing equity. *The Committee on Higher Education Funding*, under the chairmanship of Neville Wran, reported:

> "The Committee found that access to higher education in Australia continues to be inequitable. People who make most use of the Australian higher education system tend to be, or become, privileged and affluent members of the community... Society in general benefits from higher education, but considerable private benefits accrue to those who have the opportunity to participate. Graduates typically get better jobs, experience very little unemployment and earn relatively high incomes over their lifetime, compared with non-graduates... ...Taxpayers carry most of the burden of the cost of higher education. However, most taxpayers are not privileged members of society and neither use nor directly benefit from higher education". (*Committee on Higher Education Funding*, 1988 p.x).

The Committee therefore proposed the Higher Education Contribution, payable by all who participate in higher education, as a "funding partnership in which the beneficiaries make a direct and fair contribution to the cost of higher education, to supplement the funds provided by taxpayers". The Committee considered loans as an alternative option, but concluded that overseas experience with student loan schemes demonstrated a number of serious problems, including:

- "default claims for more than nine per cent of all student loans,
- high administrative and legal costs,
- rising student indebtedness and falling participation amongst financially and other disadvantaged groups".
  (*Committee on Higher Education Funding*, 1988, p.27.)

These arguments touched on two main items for discussion at the Malaysia Forum: (i) actual experience with the administration of loan schemes, and (ii) their feasibility in developing countries. The following two sections examine these in turn.

3. Design and administration of student loans

Existing loan programmes in Asia are subject to considerable variations in the terms and conditions of loans and the way in which they are administered. Discussion focused on four main topics:

- administrative responsibility for loans,
- conditions for eligibility,
- interest rates and required repayment periods,
- success or failure in collecting repayments and minimising defaults.

There is no single pattern in the region. In many countries, scholarships and loans are administered by a government agency, such as the 'Japan Scholarship Foundation', or a government department, such as the Education and Manpower Branch in *Hong Kong*, or the Public Service Department in *Malaysia*. Many participants felt that only a public department or agency would have the necessary expertise and

objectivity. On the other hand, commercial banks have responsibility in some countries, or other types of financial institution, such as the 'Central Provident Fund' in *Singapore*.

Clearly, the choice of administrative agency will depend on the objectives of the scheme and the existing infrastructure in a country. In some countries, the banking system is not sufficiently developed and lacks a national network, while in others, commercial banks already operate a wide range of credit programmes. In several countries, higher education institutions themselves have a key role in selecting those who are eligible for assistance, and in some cases institutions have responsibility for disbursement and collection of loans.

Most countries select loan recipients using a combination of academic and financial criteria. The most detailed scrutiny is exercised in *Hong Kong*, where applicants must provide very detailed information, not only on the level of parental income and assets, but the income of other members of the family. A sample of applications is checked by computer and applicants are interviewed, to check the accuracy and reliability of data provided, and ensure that only those in genuine financial need receive the highly subsidized loans.

In several other countries, however, there are doubts about whether such detailed scrutiny of students' financial means is either feasible or desirable. In *India* and the *Philippines*, for example, where only a very small proportion of the population pays income tax, there is doubt about the reliability of income data and this is also a key question in *Japan*.

Governments want to select students who are most deserving in terms of academic merit and most needy in terms of family income or other financial indicators. In *Indonesia*, the government-subsidised KMI programme was available only to students in their final years of study, in the belief that these are more likely to be successful, but this often meant that those from the lowest income categories could not enter higher education or dropped out after only one or two years. Thus, efficiency and equity criteria may conflict when limited funds are allocated between many applicants.

The terms of loans vary considerably, particularly the interest charged (if any) and the length of repayment. Loans are interest free in

the *People's Republic of China* and *India*; *Japan* Category I loans are interest free, while Category II loans, which are provided on less strict criteria require payment of 3 per cent interest. On the other hand, students in the *Philippines* must pay 6 per cent. There was considerable discussion about the appropriate rate of interest for student loans. Most governments provide some interest subsidy in order to overcome resistance to loans and help low-income students. But it is now recognised in many countries that this represents a substantial *hidden grant* and some analysts believe that it is more efficient to provide loans to all applicants, at interest rates close to market rates, but to provide grants, scholarships or bursaries for those from the lowest income families. If governments do chose to provide subsidies then the selection of loan recipients becomes a crucial issue. There are few examples of completely unsubsidized loans, although in *Indonesia* the newly established loans operated by private banks involve payment of 18 per cent interest.

The other main differences lie in length of repayment, which amounts to 3 years or less for some loans in *Singapore*, but 15 years in *Japan*. It was clear in discussion that there is no single right answer, but the choice will depend on the labour market for graduates, the extent of unemployment and similar factors.

In *Australia*, the *Higher Education Contribution* is payable by means of a fixed proportion of graduates' income, ranging from 2 to 4 per cent, depending on the level of income. Those with incomes below a specified minimum can postpone repayment, to ensure that the burden of debt does not become too heavy.

The possibility of postponement of loan repayments in cases of low income is important from the point of view of default. Experience with default rates varies widely, with *Japan*, *Hong Kong* and *Singapore* enjoying very low default, while *India* and *Indonesia* (under the KMI scheme) had very high levels of default. Participants felt that a strong political commitment to collecting repayments was essential, and helped to explain why repayment rates are high in *Japan* and *Hong Kong*, but very low in *India*. Various strategies have been attempted to minimise

default, including the publication of lists of names of defaulters, or using the support of immigration and emigration officials, as in *Hong Kong*.

4. Feasibility of student loans and ways of overcoming obstacles

Student resistance was seen as a major obstacle in some countries, particularly in a region where students have strong political influence. However, the introduction of loans had encountered very little resistance in *Malaysia* and *Singapore*, and was not expected to do so in *Thailand*. One reason was that in all these countries, loans represented a net addition to the total level of financial support for students, and scholarships and bursaries would continue to be available. Countries where loans will partially replace grants or scholarships, as in the *United Kingdom* at present, are far more likely to encounter strong student opposition.

Australia is an interesting example of a country that has introduced a system of student contributions where none previously existed. This might be expected to provide strong opposition, but the meeting heard that the Australian Government had been successful in winning support for the idea of HECS by emphasizing that it would improve equity, undertaking to monitor the scheme to ensure that it did not discourage participation by low income students, and using the funds generated by the scheme to increase higher education opportunities, rather than reduce expenditure on higher education. All these factors helped to ensure that opposition, though initially strong in some quarters, was short-lived.

In the *People's Republic of China*, the Government relies on employers to collect repayments and it was felt that this may help to reduce the problem of default. Other countries rely heavily on universities and other higher education institutions to help select loan recipients and generally administer the scheme. This may help overcome obstacles, but it may also lead to opposition on the part of institutions.

The general conclusion of the discussions was that student loans are feasible under certain conditions, particularly in small, highly organized

societies as in such countries as *Hong Kong* or *Singapore*. In very large and geographically dispersed countries, such as *India* and *Indonesia*, problems of securing repayment and other administrative difficulties seem to represent serious obstacles. A strong administrative framework is also essential, though whether this is best provided by commercial banks, government agencies, or the tax system (as in *Australia*) will depend on the state of the economy and society. Other important factors influencing the success or failure include the labour market for graduates and whether the private returns to higher education are significant. If they are, this is likely to lead to strong private demand for higher education, and greater acceptance of the idea that students should invest in their own future by means of loans.

Finally, strong political commitment to a reallocation of resources through increased cost recovery and the tapping of new sources of funds is another factor likely to lead to successful introduction and implementation of loan schemes. The emphasis on self-reliance in the new long-range plan for higher education in *Thailand* is one example of such strong political commitment, as is the Australian Government's determination to increase equity in the financing of education.

The introduction and implementation of systems of student loans is never easy. It may well encounter obstacles and opposition, and there may be problems, such as default and high administrative costs. Nevertheless, Asian experience suggests that loans are feasible, particularly when combined with other forms of student support, and their use is likely to increase, as more governments face the problem of how to expand access to higher education, in response to private demand, while public expenditure is subject to increasing financial constraints.

III. Background orientation paper

The Role of Student Loans
by Maureen Woodhall

Introduction[3]

Student loans have been widely advocated as a way of financing the private costs of investing in higher education and more than 30 countries now have loan programmes which enable students to borrow from government agencies or commercial banks in order to finance their tuition fees or living expenses, and to repay the loans after graduation. Most loan schemes offer government guarantees and some form of interest subsidy, and in many countries students receive financial support through a combination of loans, grants, scholarships or bursaries.

In some countries small-scale loan programmes were introduced 60 or 70 years ago but loans were established on a significant scale in the 1950s and 1960s in many developed countries (Canada, Denmark, Sweden and the USA, for example) and in a few developing countries (Colombia and India both set up loan schemes in the 1950s). A review of international experience with student loans (Woodhall 1983) found examples of student loan programmes in Western Europe, North America, Japan, Latin America and Asia and a few in Africa. More recently there has been a new upsurge of interest in student loans in both developed and developing countries and significant changes have been introduced or proposed in several countries with established loan

3. This is an edited version of a paper prepared for a Conference on *Private Provision of Social Services*, organized by the World Bank and the Rockefeller Foundation, held at Bellagio, 22-26 October 1990.

programmes (Germany, Sweden, and the Netherlands, for example); a new loan programme has been established in the United Kingdom; and Australia has introduced a Higher Education Contribution, collected through a graduate tax. At the same time, a number of developing countries are now seriously considering student loans as a means of financing higher education; the World Bank has strongly advocated loans on grounds of both efficiency and equity (World Bank 1986 and 1988) and the Commonwealth Secretariat and the World Bank have published guidelines for developing countries considering how to design a student loan programme (Woodhall 1987a and b).

The time is therefore ripe to evaluate international experience with student loans, to assess the effects of the changes currently taking place and to share more widely information about what works and what does not. The International Institute for Educational Planning (IIEP) has embarked on a series of seminars on student loans in higher education. The first *Educational Forum on Student Loans* was held in Paris in September 1989 and was concerned with recent experience in Western Europe and the United States. (For a summary of the discussion see Woodhall 1990). This report summarizes the forum held in Asia in November 1990, and plans are underway to hold forums in Africa and Latin America in 1991 and 1992. These will provide a useful opportunity to collect information about student loan programmes, to share experiences and to examine a number of issues, including the effects of loans on access and participation in higher education, the feasibility of loans in developing countries and problems of designing and administering loan programmes, particularly questions of whether loans are best administered by government agencies or commercial banks, what interest rate should be charged, how to minimize default, and the implications of graduate unemployment and the 'brain drain'.

The purpose of this paper is to explore some of these issues in greater depth in order to evaluate student loans as a means of financing higher education and to examine more widely the role of loans in the provision of social services. The paper is organized in terms of eight main issues which require systematic study. It is to be hoped that an evaluation of existing loan programmes will allow both developed and

developing countries to learn from the wealth of international experience that is now available.

1. The role of student loans in cost-sharing in higher education

A basic issue in many countries at present is how the costs and the benefits of education are and should be shared. Johnstone (1986) in a comparative study of student aid systems in five developed countries (France, Germany, Sweden, the United Kingdom and the USA) examines how the costs of higher education are shared between four partners: (i) students, (ii) parents, (iii) taxpayers and (iv) institutional and philanthropic donors. He points out that regardless of the system, society or country, the direct costs of tuition and the indirect costs of student maintenance and earnings forgone must be shared by some combination of these four sources of revenue. He concludes that despite differences in the balance between public and private contributions, and in the mechanisms of funding higher education in different countries, all the countries included in his study rely on a combination of these four sources, and he details various attempts in recent years to shift part of the burden of costs from one partner to another, for example by increasing fees, which shift costs from taxpayers to students or parents, or changing the balance between grants and loans.

At the time of his study (1985-86) three of the five countries (Germany, Sweden and the USA) relied partly on loans to finance higher education, but his analysis shows that the repayment terms of student loans in Sweden and Germany were so generous that there was a substantial 'hidden grant' in the form of interest subsidies which increase the contribution of taxpayers and reduce the students' share of the costs. Since his study was published there have been significant changes in several of the countries examined by Johnstone.

In 1989 both Sweden and Germany decided to change the balance between grants and loans (for an account of these changes see Woodhall 1989) and the British Government announced the introduction of student loans from 1990, but on terms which also constitute a substantial 'hidden grant', since loan repayments will be interest-free. In Sweden, the

government has increased the proportion of student aid provided in the form of a grant, but at the same time changed the repayment terms of loans so that the 'hidden grant' is reduced, while explicit grants are increased from less than 5 per cent to 30 per cent of total student aid. This policy change was partly influenced by economic analysis which demonstrated the effects of interest subsidies on the sharing of costs between students and taxpayers and by the argument of economists that explicit grants are more efficient than hidden subsidies.

In most other loan programmes there are still substantial interest subsidies, but several countries are considering changes in repayment terms that would result in an increase or reduction in 'hidden subsidies'. One question for further research is the effect of student loans on the relative cost burdens which are borne by students, parents, taxpayers and institutional or philanthropic donors in different countries, and the effects of different types of loan programmes on the incidence of costs. A change in student aid, such as the introduction of student loans in the United Kingdom, or the reintroduction of grants in Germany (so that from 1989 students receive aid in the form of 50 per cent grant and 50 per cent loan, rather than the 100 per cent loans that were provided between 1984 and 1989) involve a shift in relative cost burdens, and a change in the relation between private and social rates of return. Since so many countries are currently changing their systems of student aid it is important to examine these changes from the perspective of cost sharing, and to compare the effects of the introduction of loans, or a change in the balance between loans and grants, with other financial changes such as the graduate tax introduced in Australia and advocated by some Vice Chancellors in the United Kingdom

2. The effects of loans on access and participation in higher education

A key issue is the effect of student loans on access to higher education and on participation by particular categories of student, such as those from low-income families, minority groups, or women. Advocates of loans argue that by reducing the financial burden on public

funds, loan programmes can lead to an increase in overall participation rates and that loans are also more equitable than grants or free tuition, since the benefits of publicly-funded higher education tend to be enjoyed disproportionately by students from upper-income families. Critics on the other hand argue that student loans will deter working class students, those from poor families who will be discouraged by the fear of debt, and women who will be afraid of incurring a 'negative dowry'.

Evidence so far shows that loans do not necessarily deter low-income students; indeed *Perkins Loans* in the USA, which are heavily subsidized, are designed for low-income students, but there is some concern now in the USA that loans may discourage ethnic minority students. Certainly women do not appear to be discouraged and in Sweden and the USA which rely heavily on loans, rates of participation of women in higher education have increased faster than in the United Kingdom, which relied entirely on grants until this year. But with so many countries introducing changes in student support in the 1990s, it will be extremely important to monitor the effects on participation rates by different social and income groups, by men and women, by rural and urban status and by different ethnic groups. It is particularly important to study this question in developing countries, since loans are frequently advocated on equity grounds (see, for example, Psacharopoulos 1977, World Bank 1986).

3. The effects of student loans on labour markets

Another area of controversy between advocates and critics of student loans is the implications of loans for labour markets, through their effects on subject and career choices. One of the arguments put forward by the British Government in favour of loans was that it would "increase economic awareness" on the part of students, with respect to choice of subject and careers. On the other hand, critics argue that it will distort career choices and discourage students from entering high-cost courses, such as medicine, or low-paid jobs such as teaching. The effects of student loans on recruitment for courses with higher than average costs, such as medicine or engineering, is a particular concern in some

countries and special loan programmes have been designed for doctors and health care workers in the USA, and many states offer 'loan forgiveness' schemes to attract graduates into teaching, although experience shows that such programmes are not very effective in influencing career choices.

The idea of using 'loan forgiveness' or variable repayment terms to attract graduates into particular occupations or areas appears attractive in some developing countries, but may be extremely difficult to implement. In Barbados, a new scheme of 'loan grants' was introduced in 1983, under which part of a graduate's debt can be cancelled if he or she enters a 'shortage' occupation.

Such a scheme could be used to attract graduates to rural areas, or to meet other labour market objectives, but it will be vital to monitor such schemes carefully in order to evaluate whether they are successful in influencing career choices and whether they are more successful than alternatives, such as increasing salaries in shortage occupations. In general, the concept of 'bonded scholarships', under which students receive financial support in return for an undertaking to work in a particular field or job after graduation, is losing favour in most developing countries, but the effects of alternative types of student aid on career choices is an important area for research.

Another significant issue is the effect of student loans on the 'brain drain'. Critics of loans argue that it will be impossible to ensure repayment when a high proportion of graduates work overseas, and that student loans may actually increase the brain drain, but it is very difficult to disentangle the effects of loans from the general effects of salary differentials and other labour market factors in influencing inflation.

4. Debt burdens and the problem of minimizing loan defaults

Two problems that cause particular concern among critics of student loans are the burdens of debt faced by graduates and the problem of default by graduates who cannot or will not repay their debts. The question of what is an 'acceptable' burden of debt has no simple answer. Studies of debt burdens in the USA (Hansen 1987 and 1989) show that

there are widely differing definitions of what constitutes a 'reasonable' or 'manageable' burden of debt for graduates who have financed their higher education through loans.

> Hansen (1989) argues that:
> "Facts are few; in this as in other aspects of student aid we are unable to answer basic questions, such as how much debt the typical borrower has upon college graduation or about how many students are borrowing at high levels. In this area, too, we have failed to establish benchmarks, such as percentages of income that must be devoted to loan repayment, that would help us determine when we are approaching danger. Studies of manageable debt burdens, for example, have ranged in their recommendation from 3 to 15 per cent of income, hardly useful for policy purposes even if we had better information on what percentage of income student borrowers are devoting to loan repayment." (Hansen 1989, pp. 61-62).

Nevertheless, she concludes that "the data we do have suggest that borrowing is not out of control and that most student borrowers have quite manageable debt burdens". In developing countries, however, very little is known about the average burden of debt faced by those who take out student loans and what can be regarded as a "reasonable" level of debt. Where private rates of return are high, then it may be reasonable to expect graduates to allocate a higher proportion of their income to loan repayments than in a country with lower private rates of return. In Sweden, for instance, graduates are expected to repay not more than 4 per cent of their gross income, but private rates of return to university education are very low in Sweden and in some occupations may actually be negative. In the USA, on the other hand, where average private rates of return are higher than in Sweden, 10 per cent of a graduate's income may be needed to repay a student loan. Much more research is needed on levels of debt in relation to actual and expected graduate salaries, in order to understand the economic effects of student loans.

This is closely linked with the problem of default. In Sweden, where graduates are not expected to pay more than 4 per cent of their income in loan repayments, and those who are unemployed or have low earnings can automatically postpone repayment, actual default rates are extremely low. In the USA default rates are currently causing great concern, but research suggests that very high rates of default are associated with particular types of courses (for example short vocational courses in private for-profit proprietary schools) rather than a general phenomenon. Hansen argues that while the costs of default have "skyrocketed", due to the huge expansion of student loans in the late 1970s and 1980s, the actual rate of default has increased only a little, and she concludes that "the evidence about who fails to repay and why indicates that it is not the large borrowers who default, but rather, students with relatively small debts who cannot repay". (Hansen 1989, p. 62).

There is very little evidence about default in developing countries, but the fear of high default rates is a major factor discouraging governments from introducing loan schemes in some developing countries. Closer examination of countries which have loan schemes with very high rates of default often shows that banks or other lenders have actually made very little attempt to collect loan repayments. For example, Kenya introduced student loans in 1974, but very few graduates have as yet repaid their loans. The government now recognises, however, that this is largely due to the fact that virtually no effort was made until very recently to collect loan repayments, and believes that the default rate will fall substantially now that strong efforts are being made to require employers to collect loan repayments from all graduate employees. Similarly, a study in Sri Lanka (Hemachandra 1982) found that high rates of default were partly due to failure on the part of the People's Bank, which administered the student loan programme, to collect loan repayments.

The whole question of default requires much more research, both to establish the true extent and causes of default and to identify effective ways of dealing with the problem in countries such as Japan and Hong Kong, where default rates are extremely low.

One proposal that has been strongly advocated by Barr (1989 and 1991 forthcoming) as a way to minimize default is income-contingent student loans, under which graduates undertake to repay a specific proportion of their income, rather than to repay their loans in a specific time, as in most 'mortgage type' loan programmes. Barr argues strongly that income-contingent loans are feasible, fair and administratively simple if collected through the National Insurance System. He has advocated such a scheme in the United Kingdom without, however, convincing the government, whose system of 'top-up loans' announced in 1988 and introduced in 1990 (Department of Education and Science 1988) is a conventional 'mortgage type' loan to be repaid in 5 to 10 years. In the USA, there has been some limited experience with income-contingent loans which is largely regarded as a failure, although in 1988 Reischauer advocated a new *Higher Education Loan Programme* (HELP) to be based on income-related repayments, collected via the social security system (see Reischauer's proposal in Gladieux (Ed) 1989).

The question of whether income-contingent loans are "an idea whose time has come" as Barr argues (1991 forthcoming) or an impractical notion, as American critics believe, will continue to be debated on both sides of the Atlantic, but the implications of this idea for developing countries have hardly been addressed.

5. Administration of student loans: terms, conditions and administrative mechanisms

The first question to be determined in the design of a student loan programme is whether it should be administered by a government department or agency or by commercial banks. There are examples of the two models in both developed and developing countries, and several instances of changes, or proposals for change, from one model to another. In Sweden, for example, loans are administered by a government agency, the *National Student Aid Board*, whereas in the USA commercial banks provide loans backed by government guarantees and interest subsidies. The British government initially hoped that

commercial banks would administer the new system of 'top-up loans' introduced in 1990, but the banks proved unwilling and the government has set up a *Student Loan Company* to operate the scheme. In the Netherlands the government has recently decided to privatize the loan programme and to use commercial banks instead of a government agency, and a similar decision has just been made in Indonesia. On the other hand, in Kenya, which recently involved commercial banks for the first time, the government now wants to set up a government agency to administer student loans. There is considerable scope here for a comparative study of student loan programmes which compares government-administered programmes with those operated by commercial banks, in terms of costs of administration, efficiency of loan disbursement and collection of repayments, choice of recipients, etc.

Arguments put forward for government administration are that commercial banks would confine their lending to 'low risk' students, and that those from poor families would be denied access to the loans and that it would be more efficient, due to economies of scale. On the other hand, advocates of loans operated by commercial banks argue that they have greater expertise in debt collection and that the burden on public funds will be reduced if the private sector can be persuaded to provide the finance for student loans. What is the evidence on these issues? In the USA there is evidence that commercial banks can operate student loan programmes efficiently, but that the cost to public funds, in terms of subsidies, guarantees and the 'special allowance' paid to banks to induce them to participate, is very high. On the other hand, very little is known about relative advantages and disadvantages of government-administered programmes versus commercial banks in developing countries.

There is also a wide range of administrative issues that require further research, particularly in developing countries. In designing a student loan programme administrative issues to be resolved include:

(i) how to determine eligibility, through means test or other mechanisms;
(ii) what is an appropriate interest rate;

(iii) the length of repayment and the length of a *grace period* during which graduates are excused repayment.

There may also be legal obstacles to effective administration of student loans in some countries, and the legal frameworks establishing loans and the obligation to repay the loans may merit further examination.

6. The effects of loans on internal efficiency

Critics of student loans often argue that they will lead to higher rates of drop-out and wastage, as students may withdraw from courses because of a fear of incurring excessive debts, whereas advocates of loan systems suggest that they will increase efficiency by giving students an incentive to complete their higher education as quickly as possible. There is very little evidence on such issues, particularly in developing countries, and any evaluation of student loans needs to look closely at the effects of loans on the average length of course, drop-out and repetition.

In some countries, loan schemes incorporate incentives to encourage students to complete their higher education in the minimum time. In Germany, for example, students who complete in the minimum period have part of their loan cancelled, but there has been no evaluation of the effectiveness of such incentives.

7. The role of incentives: complexity versus simplicity

The question of incentives, and their effectiveness, raises the question of a possible trade-off between the flexibility of a student loan programme, and its complexity. It is perfectly possible to devise a very flexible programme, with different interest rates and different repayment periods for different categories of student, and which incorporates incentives to encourage students to complete quickly, or to enter particular occupations. Examples can be found of all such features. On the other hand, such a programme will be extremely complex and likely to lead to high costs of administration. A simpler programme would be

easier to administer, but may be perceived as less fair to particular categories of students or graduates. In her review of the American experience, Hansen (1989) concludes that "in designing student aid programmes, there is an important trade-off to consider between minimizing complexity of administration and maximizing flexibility in meeting student needs". There is very little evidence on the extent of this trade-off in developing countries, and this issue would repay further research.

8. The political economy of student loans

Another important issue is that of the political economy of policy reform. This is particularly important in the area of cost recovery in higher education and the introduction or adoption of student loan programmes.

How was the Australian government able to introduce a graduate tax so quickly, in 1988-89, when the New Zealand government faced major obstacles to the introduction of student loans? Did the political factors that caused the government of Ghana to withdraw a student loan programme in the 1970s mean that the scheme was unworkable, or would student opposition to the loans have eventually been overcome? Such questions are extremely difficult to answer through research, and are politically sensitive, but it is clear that the whole idea of student loans raises such deep emotions on the part of both advocates and opponents, that the question of attitudes towards user charges and loans is crucial. The success or failure of student loans may ultimately depend on attitudes towards debt and obligations to repay loans. How can such attitudes be changed?

One factor that seems to be important in some countries is that the introduction of user charges or student loans was linked directly with proposals to expand higher education. Both students and taxpayers seem to have been persuaded in Australia, for example, that revenue generated from the Higher Education Contribution will be used to finance expansion, rather than to reduce public expenditure on higher education. In the United Kingdom, the government has argued that the introduction

of student loans will permit expansion of higher education, but students and many parents remain unconvinced. The process whereby changes have been announced and implemented in systems of student support as well as levels of tuition fees and other user charges could be an interesting area for research.

Conclusion

This paper has attempted to outline some of the main questions and issues that remain to be resolved and that require research, if we are to understand more fully the role of student loans in financing higher education in developing countries. The present time represents an ideal opportunity to hold a series of International Forums in this area, to learn from experience in different countries and regions. In 1989 and 1990 major changes in systems of student support were announced or introduced in Australia, Germany, Sweden and the United Kingdom, and fundamental reviews of student loans and other types of student aid programmes are being conducted in Canada and the USA Several developing countries are considering or implementing changes in student loan programmes, including Indonesia and Kenya. There is strong interest in student loans in many African countries, and growing experience of loan programmes in Asia and Latin America.

The series of *Educational Forums on Student Loans* being organized by IIEP in 1989-91 will help to provide and disseminate information about how loan schemes work in different countries and what are the major issues facing policy-makers.

References

Barr, N. (1989). *Student loans: the next steps.* Aberdeen: Aberdeen University Press for the David Hume Institute, Edinburgh.

Barr, N. (1991). "Income-contingent student loans: an idea whose time has come". In: Shaw, G.K. (Ed). *Economics, Culture and Education: Essays in Honour of Mark Blaug.* Aldershot: Edward Elgar (forthcoming).

Department of Education and Science (1988). *Top-up loans for students.* London: HMSO (Cm. 520).

Gladieux, L. (ed) (1989). *Radical reform or incremental change? Student loan policy alternatives for the Federal Government.* New York: College Entrance Examination Board.

Hansen, J. (1987). *Student loans: are they overburdening a generation?* Washington D.C.: The College Board.

Hansen, J. (1989). "Cost-sharing in higher education: the United States experience". In: Woodhall, M. (Ed). *Financial support for students: grants, loans or graduate tax?* London: Kogan Page 1989.

Hemachandra, H.L (1982) *University students loan scheme*, Study Paper No. 46, Colombo: People's Bank, Sri Lanka.

Johnstone, B. (1986). *Sharing the costs of higher education: student financial assitance in the UK, the Federal Republic of Germany, France, Sweden and the USA.* New York: College Entrance Examination Board.

Psacharopolous, G. (1977). "The perverse effects of public subsidisation of education". In: *Comparative Education Review*, Vol. 21, No. 1 (February) pp. 69-90.

Reischauer, R. (1989)."HELP: A student loan program for the twenty-first century". In: Gladieux, L.E. (Ed.). *Radical Reform or Incremental Change? Student loan policy alternatives for the Federal Government.* New York: College Entrance Examination Board.

Woodhall, M. (1983). *Student loans as a means of financing higher education: lessons from international experience.* International Bank for Reconstruction and Development, World Bank Staff Working Paper No. 599.

_____ (1987a). *Lending for learning: designing a student loan programme for developing countries.* London: Commonwealth Secretariat.

_____ (1987b). *Establishing student loans in developing countries: some guidelines.* Washington D.C.: International Bank for Reconstruction and Development (World Bank), Report No. EDT85.

_____ (1989) (Ed). *Financial support for students: grants, loans or graduate tax?* London: Kogan Page, with the Institute of Education, University of London.

_____ (1990). *Student loans in higher education: 1. Western Europe and the USA.* Paris: International Institute for Educational Planning, Educational Forum Series, No. 1.

World Bank (1986). *Financing education in developing countries: an exploration of policy options.* Washington D.C.: International Bank for Reconstruction and Development (World Bank).

_____(1988). *Education in Sub-Saharan Africa: policies for adjustment, revitalization and expansion.* Washington D.C.: International Bank for Reconstruction and Development (World Bank).

IV. Annexes

Annex A

Summaries of student support systems

I. Australia

In December 1987 the federal government issued a policy discussion paper on higher education in Australia. That paper, and the government policy statement which flowed from it in July 1988, identified as major government commitments:

- expansion of the capacity and effectiveness of the higher education sector,
- improvement of access to higher education for groups then under-represented.

This commitment had significant funding implications and the government decided it was necessary to consider sources of funding involving the direct beneficiaries. It therefore established a Committee, chaired by Neville Wran, to develop options and make recommendations for possible schemes of funding which could involve contributions from students, graduates, their parents and employers. The Committee, generally referred to as the *Wran Committee*, was directed to have regard to the social and educational consequences of the schemes under consideration.

In the period leading up to the establishment of the Committee Australia had the following arrangements:

- 1945-1973: tuition fees representing some 15 per cent of course costs but with government scholarships, in particular, but also other arrangements resulting in only some 40 per cent of students paying fees.
- 1973-1986: no tuition fees.
- 1986-1988: a small compulsory Higher Education Administration Charge -- A$.263 (US$207) in 1988 -- was introduced for students to support the administrative costs associated with their enrolment. Some 40 per cent of full-time

students were either exempted from the charge or received assistance to pay it through income support arrangements.

The *Wran Committee* reported in April, 1988[4] and its recommendations were largely adopted by the federal government and implemented in 1989. The principal outcome of the review was a scheme, called the *Higher Education Contribution Scheme* (HECS), for collecting a financial contribution from higher education students towards the costs of providing their education. This was seen as equitable since there was clear evidence that students themselves, as well as the community, benefitted from participation in higher education.

However, central to the government's objectives was the desire to minimize financial disincentives and obstacles to participation by all who were capable of successfully undertaking higher education. It is in addressing this objective that HECS is most innovative.

With only very few exceptions, all students undertaking award courses in Commonwealth-funded higher education institutions incur a liability under HECS. This is currently A$.1,882 (US$1,482) per annum or some 20 per cent of average course costs (with *pro rata* contributions for part-time students). The innovative feature of HECS is that students can choose to meet their liability by making a lump sum payment each semester with a 15 per cent discount; or they can choose to pay the full amount through the taxation system in the same way that they pay income tax. Rates of repayment through the taxation system are 2 per cent, 3 per cent or 4 per cent of the personal taxable income of the student or graduate annually. If a person's taxable income is below a specified level in a given financial year no repayment is required in that year. (Currently that specified level is A$.35,469 (US$27,925), compared with current Adult Full-time Average Annual Earnings of some A$.28,000 (US$22,050). In 1989 the median starting salary for graduates was A$.24,000 (US$18,900).

4. *Report of the Committee on Higher Education Funding*. Australian Government Publishing Service, Canberra, 1988.

The annual charge, the outstanding liability and the threshold income levels are indexed each year to maintain their real value. However, no interest is charged.

Surveys and statistical analyses undertaken since the introduction of HECS suggest it has had little effect on participation in higher education.

A disadvantage of the HECS approach from a revenue raising perspective is that it takes some years before revenues become substantial. In 1989 total federal government expenditure on higher education was some A$.3.1 billion. In the same year HECS liabilities incurred by students totalled A$.511 million (US$402 million). However, the following are actual and estimated HECS receipts:

1988/89	:	A$34m
1989/90	:	A$100m
1990/91	:	A$128m (est.)
1991/92	:	A$192m (est.)
1992/93	:	A$260m (est.)
1993/94	:	A$348m (est.)

In 1990 19 per cent of students elected to pay their HECS contribution "up-front", by means of a lump sum payment.

The *Wran Committee* of course considered the option of combining fees with student loans but rejected it. The Committee's report states:

> "In conclusion, fees schemes that have exemptions for the disadvantaged and commercially financed loans for other students can be expected to have an unacceptable impact on student demand and equity, and should be rejected. Schemes involving fees and government-financed loans are preferable because they can accommodate zero or low interest rates and 'easy start', or exit contingent repayment plans. However, in light of overseas experience, all schemes involving fees with loans should be rejected." *(Report of the Committee ..., p.27.)*

The Committee's review of overseas experience with student loans led it to conclude there were a number of serious problems, including:

The Committee's review of overseas experience with student loans led it to conclude there were a number of serious problems, including:

- "default claims for more than 9 per cent of all student loans;
- high administrative and legal costs, and the use of debt collection agencies, in taking action against defaulters;
- rising student indebtedness and falling participation amongst financially and other disadvantaged groups."

(Report ot the Committee..., p.27)

Clearly the government accepted the Committee's advice.

Income support

Since 1987 income support for higher education students has been provided through allowances available under the AUSTUDY programme. The programme was introduced to simplify an earlier range of student allowance programmes and to remove the disincentive for young people from low-income families to participate.

AUSTUDY is payable to financially disadvantaged students 16 years of age and over who are undertaking approved full-time secondary and tertiary studies.

A similar programme, ABSTUDY, is available for Aboriginal students in post-compulsory education.

Expenditure on AUSTUDY and ABSTUDY allowances in 1989/90 totalled A$897,927 (US$707,030). These figures cannot be broken down by sector. The take up rate for AUSTUDY in 1988 was 41 per cent for tertiary students. (The last figure includes higher education and technical and further education students. Separate and more recent statistics are not available).

To date the replacement or supplementation of allowances with special loan schemes has not been on the policy agenda in Australia.

II. People's Republic of China

Between 1952 and 1983 financial support to students in higher education in the People's Republic of China basically followed the principle that all students enrolled in regular higher educational institutions should enjoy a government grant. Both tuition and accommodation were free of charge, and the majority of the students got food allowances from the government. However, changes have been made in recent years -- a combination of scholarship, grant and loan has been introduced as a general means of financing studies. The government now requires students to meet a greater share of the cost of their higher education. The following summary gives a brief description of the student support system before 1983 and details of the reform since 1983, especially of the loan scheme which started in 1987.

1. Financial support system before 1983

In September 1952, three years after the founding of the People's Republic of China, the government promulgated a regulation concerning the financing of students. It was stipulated that all students in the People's Republic of China's institutions of higher learning should enjoy a government subsidy. Under the regulation, all students enrolled in higher educational institutions were entitled to get grants which covered all costs of higher education, including tuition, accommodation, food and living allowances.

In August 1955, aiming at a better utilization of government revenue, the Ministry of Higher Education decided to change the grant scheme for students, apart from those at Normal universities and colleges for teacher training. Instead of allocating grants to all students, the new system provided grants only in cases of need, although tuition and accommodation were still free of charge to all students. Those who

could not afford part or all of the expenses for food and living costs could apply to their institution for government subsidy. The grant for food and living costs was divided into two kinds: (i) regular subsidy and (ii) temporary subsidy. The regular subsidy was further divided into a food allowance and living supply allowance. Temporary subsidy covered three items: study subsidy (for books and supplies), clothing and bedding, and other subsidies such as nutrition subsidy for the sick and a transportation fare subsidy for the students with financial difficulties.

In 1977, however, the government revised the grant system. All post-graduates and students at Normal colleges or universities, physical education institutions and colleges for minority nationalities were entitled to the government subsidy, and about 73 per cent of the students in other institutions of higher learning also received the Government subsidy.

2. The system of awards from 1983 to 1990

In 1983, the government promulgated a new method of distributing grants and rewarding scholarship. Food allowance and living allowance were not available for the majority of students, but those who were in financial difficulties and met the requirements for the subsidy -- such as family income -- could apply for the regular student's subsidy. However, all students in teacher training, physical education, agriculture, forestry colleges or universities and in colleges for minority nationalities were still eligible for a government grant. Students specializing in navigation, dancing, opera, wind musical instruments, ocean fishing, some categories of mechanical engineering and students in the colleges of the armed police -- whether or not eligible for government subsidy -- were to be given an extra sum equivalent to nearly 40 per cent of the standard living allowance, for their special food supply.

The government also formulated provisional regulations on the awarding of government scholarships, named the *people's scholarship*, to promote all-round development in moral, intellectual and physical education for students in higher educational institutions and to encourage

them to study more diligently. The government scholarship was discussed and determined for each academic year and was awarded each semester.

In 1987, the policy of financial support to students was changed again by the government, with the objective of reducing public expenditure and requiring students to meet a greater share of the cost of their higher education. The government subsidy consisted of three categories: (i) scholarship, (ii) grant and (iii) loan. *Scholarships* were granted only to those who met the requirement for academic merit and moral behaviour. Five per cent of the students were eligible for scholarships. *Grants* were available to those who specialized in teacher training, agriculture, forestry, physical education and those who enrolled in colleges for minority nationalities. These students accounted for about 30 per cent of the total student population. *Loans* could be applied for by the remaining 65 per cent of students if they were in financial difficulties and came from families with a low-level income.

3. Student loan scheme

The system of loans came into force in September 1987. The system began as an experiment in 86 universities in that year and the scheme has now been generalized throughout the country.

(i) *Eligibility for loans*
All students, except for those who are entitled to get grants, are eligible to apply for loans to cover their food or living expenses if they are in financial difficulties and are assessed as having a low level of monthly family income.

(ii) *Categories of loans*
According to the regulations, loans are classified into three grades. Students can get the top grade loan if the average monthly income of their family members is lower than 20 Yuan (about US$3.85); students can apply for the second grade loan if the average monthly income is lower than

30 Yuan (US$5.75) and the third grade loan if lower than 40 Yuan (US$7.70).

The top grade loan is 300 Yuan a year (US$58), the second 250 Yuan (US$48) and the third 200 Yuan (US$38.50).

(iii) *The rate of interest*

The loans are interest-free to all students if they repay the loans in the required period. However, an annual interest of 5 per cent will be charged to those who have failed to repay the loans by the deadline year.

(iv) *Proportion of students borrowing loans*

As the loan is of a beneficial nature to students under the present policy, the number of students who get loans is strictly limited to 30 per cent in all individual universities or colleges. Up to 1989, there were about 383,000 undergraduates who had been granted loans.

(v) *Administration of loan*

The central government and local governments, which have the responsibility for policy-making, formulate the guidelines for the student loan programme and allocate the funds to universities and colleges to be used as loans. According to the guidelines and the money available for loan, individual institutions of higher learning are responsible for distributing and collecting the loans to and from borrowers. It is stipulated that the money repaid by borrowers will not be transmitted to the central government or local governments, but be used by the institutions to improve teaching conditions.

4. Repayment of loans

Repayment terms are as follows:

- The repayment period is generally fixed at 2-5 years after graduation. However, there is a *grace period* of one year before initial repayments begin.
- Employers are also required to take responsibility to repay the loan by means of regular monthly instalments for the graduates

employed by their companies; alternatively, employers may be asked to pay the total loan first, and to deduct the loan from the borrowers' monthly salary within 2 to 5 years.

- Graduates are encouraged to repay the loan before graduation if they have economic capability. If so, the total debt will be reduced by 10 per cent.
- If students leave school without finishing their study because of a criminal offence, discipline problems or illness, parents are responsible for the repayment of the loan.

The repayment may be totally or partly cancelled in the case of death or if students meet one of the following criteria:

- Those who have been graded as *best students* for three or four years on the basis of academic merit and moral behaviour.
- Those who volunteer to work as teachers in rural areas or in professions with hard conditions, such as oil extraction, mining, weather stations and the like.
- Those who work in areas defined as *poor counties* by the State council.
- Those who were born in inland provinces and are willing to work in the areas inhabited by minority nationalities.

Since the student loan scheme was launched only three years ago in the People's Republic of China, no loans are yet due for repayment. The earliest date for collecting repayment from borrowers graduated from regular higher educational institutions is expected to be September 1991.

III. Hong Kong

The Hong Kong Government operates two financial assistance schemes for students in higher education. The main scheme was launched in 1969 to assist full-time students in local institutions, and provides both *grants* and *loans*. A more recent scheme, launched in 1982, supports Hong Kong students in the United Kingdom. Loans were replaced by grants in 1983, but subsequent growth of demand required the reintroduction of supplementary loans. Individual institutions also operate their own schemes, using donations and charitable bequests.

1. The nature of financial assistance

For the first 19 years the scheme was operated by the secretariat of the University and Polytechnic Grants Committee (UPGC), but in 1988 administration was transferred to the government's Education and Manpower Branch, which is advised by the *Joint Committee on Student Finance* (JCSF). To be eligible for assistance, students must have resided or been domiciled in Hong Kong for three years immediately prior to application.

The programme provides grants as well as loans. The grants cover faculty expenses, tuition charges and student union fees, and the loans meet living expenses. Since 1987 the loans have borne interest charges of 2.5 per cent, but before that time they were interest-free. Loans normally have to be repaid within five years of graduation.

About 8,000 loans are awarded each year. The proportion of students receiving loan assistance fell from 63.5 per cent in 1979-80 to 25.5 per cent in 1989-90. Assistance is only available on a means-tested basis, and the JCSF sponsors periodic student surveys to assist in calculation of appropriate grants and loans. (See Table 1).

Table 1: Numbers and percentages of students receiving assistance

Academic Year	Full-time students	No. of grants	Grants as % of student population	No. of loans	Loans as % of student population
1979-80	16 135	6 375	39.5	10 239	63.5
1980-81	17 063	6 550	38.4	10 482	61.4
1981-82	17 279	9 148	52.9	10 413	60.3
1982-83	19 898	8 262	41.5	9 943	50.0
1983-84	21 156	8 249	39.0	9 843	46.5
1984-85	22 412	8 940	39.9	10 381	46.3
1985-86	23 546	9 128	38.8	10 734	45.6
1986-87	25 929	8 356	32.2	9 503	36.7
1987-88	27 470	6 852	24.9	8 457	30.8
1988-89	29 330	6 486	22.1	8 022	27.4
1989-90	30 850	6 284	20.4	7 873	25.5

Sources: University and Polytechnic Grants Committee's Secretariat 1983, pp. 22-4; 1985, p.4, p.7; 1987, pp.22-3; unpublished data from Student Finance Section, Education and Manpower Branch, Hong Kong.

Application forms are very detailed, demanding information on earned and unearned income not only of the applicants and their parents but also on all unmarried siblings. Indeed until 1990 information was required on the incomes of siblings even if they were married and resident outside Hong Kong.

Requirements for documentary evidence have always been detailed, but were extended in 1981. This partly accounts for the fall in the percentage of grants and loans awarded after 1982, and has created an even tighter system. Each year, applications are randomly selected for checking by the computer, which ensures an appropriate sample by taking account of different income bands and institutions. Staffing was also increased in 1981, and officers undertake site visits to verify details.

Once incomes have been established, the system tries to help low income students through a graduated system of benefits. The authorities calculate each student's annual disposable income by assessing the annual incomes of her/his household and family members, deducting

rent, school fees and medical expenses for the chronically sick, and dividing the net figure by the number of people in the family. Fifty per cent of the resulting figure is set against the student's annual grant requirement, and the other 50 per cent against her/his loan requirement. To provide a basic allowance, part of the annual disposable income is usually ignored. In 1985-86 for example annual disposable incomes below HK$4,200 (US$540) totally ignored, and others were progressively ignored according to a six-band system.

The chief drawback of this system is that it is complex and requires work from so many people that it can prove counterproductive. It is not known how many potential students are deterred from ever applying because of the type of information required. Probably they are few, because most individuals in Hong Kong are concerned first to acquire a tertiary education and only later to secure the necessary finance. However, student affairs officers in the tertiary institutions say that sometimes students' family members refuse to share their incomes or even to declare them, and that it may be hard for students to acquire the necessary supporting documentation. They add that this problem has worsened in the late 1980s because of tightened government requirements.

2. Repayment and recovery of loans

Most students are required to repay their loans to the Treasury in 20 equal quarterly instalments over five years following graduation or withdrawal from studies, though alternative arrangements are made for students on non-degree and short courses. Suspension of repayment is granted to applicants engaged in further studies, but these individuals are later required to pay larger instalments over a shorter period. When the further studies take place abroad, suspension is prohibited when quarterly repayments are below HK$300 (US$40). Repayment may also be suspended for up to six months on each occasion on grounds of financial hardship or sickness. In all cases, the maximum total period of deferment is five years.

The Hong Kong authorities have a good record of loan recovery. In 1989, only 440 default cases were outstanding even though 70,000 loans had been granted since the inception of the scheme.

Administrators in Hong Kong have taken default rates very seriously and have employed persistent strategies to recover loans. Students who accept loans have to provide a guarantor who is gainfully employed, can supply a business address, and will sign a deed of indemnity. Since 1982-83 a surcharge of 5 per cent has been added to instalments which remain unpaid seven days after their due date, and this measure is reported to have had a significant effect (UPGC's Secretariat 1985, p.9). Cases with two overdue repayments are referred from the Treasury to the JCSF for follow-up action, and arrangements have been made with the Immigration Department to include the names of emigrated defaulters and their guarantors on the list of wanted people which is consulted at every international entry and exit point.

3. The costs of administration

Administration of the scheme is complex and therefore costly. Salary costs represent about 2.2 per cent of the total amount given as grants or loans. The total annual cost, including buildings, computers, etc. is probably about 3.9 per cent of the total amount of aid awarded.

4. Conclusions

Hong Kong's student loan scheme is judged to be efficient, and appears to have contributed significantly to equity of access to higher education. Application procedures are complex and time-consuming, and in some respects might be considered counter-productive. Yet the number of needy applicants who cannot receive Government help because they are unable to persuade family members to declare their income is thought to be small. JCSF staff feel that the number of relatives who refuse to assist students once family incomes have been assessed is also small. Confidence in the system is further improved by the existence of institutional grant and loan schemes.

To some extent, the success of the Government scheme is only possible because of the nature of Hong Kong's geography and society. Because the territory is small in area, it is easy for officers to make personal visits to the homes of applicants' families and to defaulters and their guarantors. Because Hong Kong has a centralised government, it is not necessary for national and provincial governments to seek the co-operation of each other and to encounter the delays that might ensue. Because competition for higher education is intense and offers high rewards, students feel privileged and are able and perhaps more willing to repay loans than are their counterparts in other countries. Because Hong Kong has tightly defined international entry and exit points, it is not easy for defaulters and their guarantors to evade the immigration officials. And because technology is well developed and qualified staff are readily available, it is easy to process data by computer and achieve instant updates on records.

IV. India

1. Financing higher education in India

Higher education is financed in India largely by the government, and in the last few decades higher education has increasingly become a state-funded activity. There are no private universities in India, although there are many private colleges. However, most private colleges are privately managed but publicly funded, to the extent of 80 to 90 per cent of their recurrent budgets.

In the early 1950s, the Government (federal, provincial/state and local) used to meet only about 40 per cent of the total expenditure on higher education (excluding students' or families' non-fee expenditure). By 1980, however, the corresponding figure had increased to 73 per cent, while the share of student fees (the only contribution from students and their parents) declined from 37 per cent to 17 per cent, and the share of other sources such as endowments, donations, etc., from 14 per cent to 11 per cent.

The level of fees charged by Indian universities is not related in any way to the costs of education, nor to the ability of the students and their parents to pay for education. In 1979-80 students in arts and science courses (general education) on average met about one-fifth of the cost of their education in the form of fees (of all kinds), while students in costlier, better-rewarding and more prestigious professional courses like medicine and business management paid only 5-7 per cent of the costs of their education. Similarly, students in colleges on average met 15 per cent of the costs of education, while students in universities met 13.4 per cent and those in research and other higher level institutions paid only 1-4 per cent.

There appears to be a consensus among educational planners on the need to check these trends, and to search for methods that increase the

share of non-governmental sources in the financing of higher education, without affecting equity and efficiency in higher education. Relatively poor levels of living, with about 40 per cent of the population living below the poverty line, and the relative democratisation of higher education necessitate a dominant role of the Government in financing higher education.

At the same time, the need for mobilising additional resources for higher education is widely recognised. Accordingly, various alternative measures are being discussed, including reforms in fees, introduction of payroll tax, student loans, earmarked taxes, etc. There is a general fear that a uniform increase in fees would reduce access to higher education for socially and economically weaker sections of the society. There have been proposals for a differential. Arguments are being made in favour of a fee structure which takes account of family income levels. Graduate or payroll taxes are believed to be cumbersome, adding to the complexities of the already complicated tax structure in the country. Experiments with earmarked taxes or special levies were not found to be encouraging.

Few higher educational institutions in India, except for some recently established private institutions, generate any sizeable resources on their own. Thus, the choices revolve around one or two measures like discriminatory fees, and loan financing.

2. National loan scholarships scheme

Loan financing is not new in India. A small loan scheme known as the *National Loan Scholarship Scheme*, was first set up in 1963, view to improve access to higher education, without the total financial burden.

A system of student loans is believed to reduce in the long run the burden on the public exchequer of financing higher education, so that scarce public resources can be allocated to sectors like primary education that have higher social advantage (Tilak 1987). As the consumers of higher education tend to belong to a relatively prosperous group in society, this kind of self-financing is also believed to be equitable in nature and effect. It is argued that student loans may be regarded as highly equitable, as 85 per cent of general tax revenue is made up of

indirect taxes that are paid by a vast majority of the poor, and funding higher education caters largely for the needs of relatively economically advantaged families. Hence it is suggested that student loans would reduce the possibility of higher education transferring resources from the poor to the rich.

On the part of the students and their parents, student loans shift the burden of investment in higher education from the present generation to a future generation, from the parents to the students themselves. Normally the present generation pays for investment through general taxation while future generations benefit from this investment. Today's children are educated, and the future benefits. Student loans on the other hand, require the students to fund their own education. They pay later for education already received. At the same time, no poor student desirous of having higher education will be prevented from pursuing higher education for economic reasons.

It was originally anticipated that the student loans scheme would provide a revolving fund in 5-10 years, and the scheme would become self-funding in due course. It was also advocated on the grounds that such a scheme would prevent wasteful expenditure, as only the needy students would borrow from the government for their further education, and it was argued that students would also pay particular concern to their choice of study and later to their choice of jobs in the employment market.

Finally, some advocates argued that it would increase the value of education in the eyes of consumers, as anything provided free is not valued much; students would also become cost-conscious, and know how much the society invests in their education. Thus the internal efficiency of higher education is expected to increase because of student loans.

3. Administration of loans

The national loan scholarships are given free of interest to needy and meritorious students for full-time higher education in India; starting from post-matriculation, to the completion of higher education, renewable on a year-to-year basis. The value of the scholarship ranges

between Rs.720 (US$38) per annum (for pre-university and undergraduate courses) and Rs.1,750 (US$90) per annum (for Doctoral or for post-second degree education in professional courses such as medicine, engineering, technology, etc.) depending upon the nature and type of higher education. The scholarships are awarded on the basis of merit and financial need. All those who secure 50 per cent or above in qualifying examinations, whose parental income does not exceed Rs. 25,000 (US$1,315) and who do not receive any other scholarship, are eligible for the loans. In the case of postgraduate students, parental income does not form a criterion and merit forms the sole criterion for final selection among the eligible applicants.

The scheme is funded by the national (central) government, but administered through the provincial (state) governments. The loan is actually paid through higher education institutions. The national government fixes the number of loan scholarships (presently around 20,000), and the regional distribution is based on distribution of population.

4. Repayment

The selected students are required to execute a bond with the government to abide by the terms and conditions of the scheme and to repay the loan. The bond is signed by the students and by their parents, who stand surety for the students, meaning that the parents would pay in case of default by the students.

The students are expected to repay the loan in easy monthly instalments, equal to one-tenth to one-sixth of the monthly income, subject to a minimum of Rs.25 (US$1.30) per month. Borrowers who earn no income, including housewives, have to pay the minimum, i.e. Rs.25 per month. Repayment starts one year after the borrower begins to earn an income (excluding any paid practical training), or three years after termination of scholarship or studies, whichever is earlier. On average, loans become recoverable 8-10 years after commencement of the loan award, and full recovery of the loan takes around 10 years. Repayment is excused in some cases; for example, those who join the

teaching profession or armed forces are given a rebate of one-tenth of the loan amount for each year of service.

Loans are also written off in case of death. Emigrants to foreign countries are expected to repay the loan in full, unless they have secured the consent of the government to postpone repayment. In the case of delays and defaults in repayment, it was planned to charge interest (10 per cent per annum), and recover the whole recoverable loan amount as an arrear of land revenue (from the agricultural land holding families), but this has seldom been put into effect.

On the basis of the recommendation of the *Sixth Finance Commission* the amount recovered from loan repayments is shared equally by the national and provincial governments since 1974.

5. A review of the experience

The scheme has been in operation in India since 1963. In the very first year, although 18,000 loan scholarships were initially announced, only 9,600 were actually given. The number of loan scholarships touched an all time high level of 26,500 in 1965-66; and immediately declined to 18,000 in the following year (1966-67). The figure has stabilised over the years at around 20,000.

Originally, the scheme started with Rs.13.3 million (US$700,000) in 1963-64, and now the budget for the scheme is of the order of Rs.32.1 million (US$1,690,000). The budget for the scheme fluctuated significantly, and was around Rs.40 million (US$2,100,000) during the 1970s. As the number of scholarships is fixed, the actual total amount depends upon the distribution of scholarships by levels/types/course of higher education.

Detailed data on loan recovery are not available, although it is widely believed that the rate of repayment is very poor. Rough estimates suggest that the rate of recovery was about 10 per cent in 1977-78, and about 15 per cent in 1990-91. This all-India average is not uniform across all the states; the rate of recovery varies between less than 1 per cent in Assam to 73 per cent in Tripura.

The scheme is administered by the central government through the state governments, and the amount is actually paid through the institution, but when it comes to recovery, the institution has no responsibility. The central government has to recover it through the state government.

The student population in higher education has increased from 1.3 million in 1963-64 when the scheme was started, to 9.2 million in all forms of higher education in 1988-89. But the number of loan scholarships remained fixed at the initial number of 20,000. Thus there is no correspondence between student numbers and the number of loan scholarships.

The maximum amount of the loan has also remained fixed since 1963-64. During this period the price levels have increased significantly, the consumer price index registering an eight-fold increase. Thus the real value of the loan has declined significantly.

In summary, the student loan scheme in India has remained largely unchanged for three decades, despite a number of obvious problems and difficulties. Currently, there have been proposals for abolition or reform, as well as proposals to change the method of financing higher education, for example by increasing fees. For the moment, however, no change is planned by the government.

V. Indonesia

Currently there are about 1,500,000 students in higher educational institutions in Indonesia, about one third of these being in state-run universities and teachers colleges and the others in private tertiary institutions. State institutions are highly subsidized by the government with official tuition and fees being only about Rp.375,000-Rp.562,000 (US$200-US$300) per year and representing, for most areas, less than 20 per cent of the total cost (including living and travel expenses) incurred by the student. Private institutions are, of course, self-supporting, although here fees vary widely, from the equivalent of a few hundred dollars to several thousand dollars per year depending on the type of institution and programme. Direct forms of student support, either in the form of loans or scholarships, have played a relatively limited role in the financing of higher education.[5]

Up until the early 1980s there were no Government loan schemes and bank loans were, at least in principle, mainly restricted to directly productive uses of funds which could not be used for consumption purposes. If students borrowed to meet their educational costs, and it is likely that many did, these loans would have been almost entirely informal, either through family, relations or friends, or from other informal credit sources.

1. Establishing of Kredit Mahasiswa Indonesia (KMI)

During the early 1980s, however, there was increasing concern about the low internal efficiency of the higher education system, even at

5. A survey carried out at eight public universities during 1988/89 showed that only 10 per cent (9 per cent scholarship and 1 per cent KMI loan recipients) of undergraduate (S1) students received any form of financial aid.

the very highly subsidized public institutions of higher education. This was largely reflected in the length of time it took students to complete undergraduate degrees, often as long as eight or nine years or even more, instead of the 'normal' four or five years. The reason lay primarily in the final requirement of a 'skrispi' or thesis (social sciences) or a project (physical sciences). Especially in public universities where only minimal tuition fees were charged during the thesis or project period, students could easily delay completion of their degree and enter the job market while still maintaining their student status.

Various ways and means were sought to raise internal efficiency, including the provision of subsidized student loans. The idea here was to utilize some of the windfall profits accruing to government as a result of the high oil prices at that time and to use this in ways which would help to meet the needs of students within the educational system. By allowing students to forego employment, it was felt they could be encouraged to complete the full requirements of their degree in the shortest possible time.

This led to the introduction of a subsidized government student loan scheme *Kredit Mahasiswa Indonesia* (KMI) in 1982. This scheme was implemented by the Central Bank (Bank Indonesia) in the form of subsidized liquidity credits to the State-owned Bank Negara Indonesia, known as BNI 1946, which provided loans to students.[6]

In line with the earlier arguments on internal efficiency, these loans were limited to students in their final phases of study -- in most cases, those who had already completed their course work and were working on the thesis or final project. In fact, this bias has been characteristic of most forms of financial aid, with the exception of bonded scholarships.[7] In the case of KMI, loans were restricted up to 1985 to "needy" students who had completed 90 to 110 credit units, and after 1985 to those who

6. Liquidity credits are low interest bearing credits derived from subsidized funds provided by the Central Bank (Bank Indonesia) to finance specific activities.

7. Scholarships given by Government departments or private companies which require some period of work in return.

had completed 110 to 120 credit units (out of 140 or 160 credit units), or to students who had already reached their fourth or fifth year of study.

2. Abolition of KMI

Given the low rates of participation, it is questionable whether KMI had any real effect on internal efficiency. Recent improvements in this area probably have resulted more from the introduction of the Credit System *Sistem Kredit Semester* (SKS) during the first half of the 1980s which allowed universities to set time limits for completion of degrees. In any case, the demise of KMI was ultimately caused by other factors related to the economic problems which forced a major reorganization in the Indonesian economy during the mid- to late 1980s. Thus the rapid decline in the price of oil in the mid-1980s led to dramatic declines in revenue and forced the government to re-evaluate the efficiency of various subsidies and to allow greater scope to voices which had been arguing that subsidized credit in virtually any form would necessarily lead to rationing that would have a detrimental effect on those in greatest need.

The result was a series of government initiatives to deregulate the economy to promote increased private investment, particularly for export oriented industries. In respect to this discussion, the most relevant deregulation policy was the banking deregulation package of January 1990 (known as the January Package or Pakjan), which eliminated a number of subsidized liquidity credits, including the KMI.[8]

It is also arguable that the conditions which led to the establishment of the KMI in 1982 are less relevant today. Not only has population growth increased the number of students attending and graduating from university, but the efforts, started in the early 1970s, to build and staff primary schools under the *SD Inpres Programme*, have resulted in

8. Other types of subsidized credits which were eliminated included: export credits, credits for national contractors, credits for the BIMAS agricultural programme for fertilizer and insecticides, investment and working credits for small scale industry, credits for teachers, and credits for student dormitories.

achievement of universal primary education enrolment. This has pushed greater numbers of students into secondary and subsequently into tertiary education. In the meantime, measures taken to raise internal efficiency, such as the introduction of the Credit System noted above, have reduced the average number of years needed to graduate; at least in the major public institutions of higher education this has now declined to around five to six years.

The situation has also been affected by recent changes in the job market for university graduates. In the past, when the numbers with tertiary education were relatively small and the Government Civil Service was expanding rapidly, the government was the major employer of those with higher education. Today, the Civil Service is recruiting far fewer new employees, while on the other hand the number of graduates is growing far more rapidly. Private sector demand is increasing, but this is relatively recent and is more limited in terms of subject matter specialization. Consequently, there is now an oversupply of university graduates and unemployment rates among post-secondary graduates have been rising at an unprecedented pace. As in other countries undergoing rapid economic development, there exists a mismatch between demand and supply for qualifications, and this has affected those with tertiary education.

3. Professional students loans (PSL)

On the other hand, the recent revival of the Indonesian economy led by export oriented industry and supported by various deregulatory policies has created a surge in demand for middle- and upper-level managers. Led by the private sector a number of business schools have been established at the graduate level.

These business schools have deviated from the undergraduate pattern where instruction is solely provided by domestic lecturers. Instead, affiliations have been established with foreign institutions, including the use of foreign staff, which has resulted in relatively high tuition fees. Thus, while undergraduate tuition fees at public universities

vary between Rp.280,000-Rp.375,000 (US$150-US$200) (and about double that at better private universities[9] tuition fees at these graduate business schools vary between about Rp.9,500,000 (US$5,000) to as high as Rp.19,000,000 (US$10,000) at the fully accredited *Magister Management Programme* of the *University of Indonesia*.

In order to attract students, these business schools have sought the assistance of private banks. In 1984, a major private bank, Bank Duta, which had close affiliations with a newly established business school (IPMI), provided commercial loans to students at this institution.

In addition, the banking deregulation in 1988 led to a rapid increase in the number of private banks. Recognizing that the graduates of these business schools generally had little problem in finding relatively lucrative employment, the rapidly growing banking industry, which has been increasingly moving into various forms of consumer credit, has shown increasing interest in providing loans to these students. When the Magister Management programme at the University of Indonesia first opened in 1988, there was only one bank offering professional student loans. Today, students have a choice of three banks to borrow from.

4. Administering student loan schemes

Kredit Mahasiswa Indonesia (KMI): Besides the eligibility conditions mentioned earlier regarding types of institutions, student educational progress and income class, the KMI scheme included the following additional requirements:

- A financial statement authenticated by local officials,
- A doctor's certificate attesting to good health,
- A recommendation from the Rector, Vice Rector for student affairs or the Dean of the relevant faculty submitted to the local branch of the implementing bank, BNI 1946.

The maximum loan provided under the KMI is Rp.750,000 (US$400) per year for undergraduates (S1) and Rp.1,500,000 (US$800)

9. Students at private universities are also often required to pay 'entrance fees' which can range up to about US$2,750.

and Rp.2,500,000,000 (US$1,320) per year for masters (S2) and doctorate (S3) students respectively.

Loans must be repaid within a maximum of ten years, including a one year *grace period*, but in most cases, borrowers are expected to repay their loans in 5-7 years. The 6 per cent interest per year is accumulated during the *grace period* and added to the total debt. While no guarantees are required, a loan application must be co-signed by the student's parent or other relative as well as by the Rector. Upon graduation, the diplomas must be lodged with the bank as collateral for the loan, although as critics have noted, this is not effective because employers are generally satisfied with photocopies. These loans are insured by the government-owned insurance company ASKRINDO, which meets claims from BNI 1946 in the case of death or permanent disability of the recipient.

Repayment of the loan is made in equal monthly instalments to the local branch of BNI 1946, or to offices of other local state banks. If a graduate joins the Civil Service then the Government makes the monthly deductions. In other cases the borrower has to take the initiative. The maximum monthly instalment is not allowed to exceed 30 per cent of the borrower's gross salary but usually repayments constitute a lower proportion than this. A typical monthly instalment is in the order of Rp.10,000-Rp.12,000, (US$5.30-US$6.35) which is around 15 per cent of the salary of a candidate civil servant during his/her first year probationary period. Considering the following facts, however, it can be assumed that the default rate is likely to be rather high:

- the rather small collections to be made from individual borrowers through numerous branches of three state banks spread over the archipelago;
- borrowers, after graduation, may move all over Indonesia to find a job;
- the very rapid growth in KMI lending;[10]
- the recent abolition of the KMI.

10. KMI credits from Bank Indonesia rose from Rp.4 billion during 1982/83 to Rp.57 billion during 1988/89.

Professional Student Loans (PSL) are strictly commercial loans provided by a few private banks at slightly below market interest rates, which currently varies between about 18 to 23.5 per cent per annum. These loans are currently extended to students attending business training programmes at privately run institutions which charge relatively high tuition fees. The loans tend to be strictly limited to covering most or all (70 to 100 per cent) of tuition fees. The total loan period generally varies between three and five years with *grace periods* varying between 15 to 24 months following graduation. Collateral can be in the form of diplomas, land or car ownership certificates, which may, in some cases, be waived because the graduates are known to be in high demand. Similar to the KMI, guarantees from the institution's administration are an important condition of acquiring a loan. Thus the institution's administration is required to guarantee either to withhold the applicant's diploma or to submit the diploma to the respective bank. In addition, applicants are also required to fulfill such conditions as opening an account with the respective bank, and/or submitting an income statement from their employer.

Repayments depend on the conditions of the loans, and are specific to agreements made between the bank and the institution. Even though the PSL instalments are far larger than those required of the KMI (due to differences in loan size and interest rate), banks have generally had very good experience with these borrowers and the default rate has been practically nil. This record may not only be due to the goodwill of the borrowers but also to the sanctions (including public announcement of default through the media) that can be applied.

5. Feasibility of student loans in Indonesia

The PSL is a very good example of how student loans can work, even without any Government subsidy, but this is likely to remain true only as long as they are made available selectively to students whose risk component is relatively low. A comparison between KMI and PSL indicates that it is probably possible to develop a student loan scheme as a revolving fund at market interest rates as long as there is adequate

assessment of future earning potential of prospective borrowers and the institutions and borrowers served are willing to respond positively to repayment requirements, particularly to the degree that poor repayment would result in a lack of further credit to these institutions or individuals.

What does seem clear is that given the high degree of subsidization of interest rates and the lack of attention to the student's employability upon graduation, the KMI scheme could not be sustained. On the other hand, at least for the present, student loan schemes of the general form of PSL can have a life of their own. The deeper problem is how to help students who are in need but for whom the risk factors are relatively high. It may well be that in these cases outright grants, possibly financed through some form of cross-subsidization, would prove to be a more efficient method of financing students in higher educational institutions in Indonesia.

VI. Japan

1. Financial aid programmes in Japan

The major sources of financial assistance to the students in higher education in Japan include the following:

- Japan Scholarship Foundation (JSF).
- Local governments and private sources.
- Public and commercial banks.

The *Japan Scholarship Foundation* (JSF) is financed by the national government, and its programmes provide the core of student aid. It is estimated that in 1983 the JSF programmes accounted for 77 per cent of the financial aid received by undergraduate students in four-year institutions. The corresponding share was 84 per cent for graduate students and 73 per cent for the students in two-year institutions. Details of the programmes will be discussed below.

A survey conducted in 1983 showed that in addition to the *Japan Scholarship Foundation*, there were some 3,000 agencies that offered some form of financial aid to students at various levels of education. Private foundations numbering more than 800 provided the second largest source of financial assistance, accounting for 7 per cent in total amount at the undergraduate level. Individual universities and colleges constitute the third largest source, accounting for almost the same share as the foundations. Some institutional programmes were financed by funds from the *Private Education Promotion Foundation*. Almost 1,200 local Governments at various levels set up their own scholarship programmes. At the higher education level, their programmes accounted for 9 per cent of the loans given to students in two-year institutions, and for 4 per cent in the four-year institutions. About two-thirds are either

loans or mixtures of loan and grant. This tendency is particularly strong among the private foundations.

Loans provided by financing agencies, either public or private, have been growing in recent years. Currently, six public agencies offer loans for the purpose of education. The most extensive private loan programme is that from the *People's Financing Corporation*, which lends to parents up to the amount of 1 million Yen (about US$7,575) at an interest rate similar to long-term prime rate (6.2 per cent as of 1990). Since the loan is made only once and the repayment should be made within only five years, the loan is mainly utilized for the fees and tuitions to be paid at the time of entrance to private institutions. The number of such loans has been increasing to reach 56,000, roughly accounting for 8 per cent of the fresh entrants to 4- and 2-year institutions, in the Spring of 1990. Meanwhile, more than 200 commercial agencies (93 banks and 153 loans and savings organizations) are offering loans at higher interest rates. Terms of lending vary by institution, but most entail a lending limit from 3 to 4 million Yen (US$22,700 to 30,300) and repayment period of five to nine years, with possibly some *grace period*.

2. Japan scholarship foundation loans

The *Japan Scholarship Foundation* (JSF) is a public organization established specifically to provide financial assistance to students in need. The scope of assistance includes secondary as well as post-secondary levels of education, but the following description will concentrate on the post-secondary programmes. Currently, the JSF programmes consist of two types of loans: *Category I Loans*, which are interest-free, and *Category II Loans*, with fixed rates of interest.

The interest-free *Category I Loans* constitute the basis of the JSF programmes. The size of the loan depends on where students are studying, and at what level. In 1986 the monthly rates applied to students in four-year institutions varied from 26,000 Yen (US$200) for those attending national or municipal institutions and living at home to Yen 45,000 (US$340) for those attending private institutions and living away from home.

The *Category II loans* were created in 1984 to extend the availability of loans, particularly among undergraduate students. These loans require interest to be added in repayment, but the required conditions for eligibility are more lenient than the *Category I loans*. In general, the monthly amount of loans available for the students in four-year or two-year institutions are the same as in *Category I*. The interest rate applied in 1986 was 3.0 per cent per annum. Students in private institutions who are majoring in medicine or in dentistry may apply for supplementary loans of either 40,000 Yen (US$300) or 80,000 Yen (US$600) per month. Similarly, those studying Pharmacology may apply for additional 20,000 Yen (US$150). These supplementary loans entailed 6.5 per cent interest.

For students in public institutions, the annual amount of the JSF loan in 1984 was 264,000 Yen (US$2,000) for those living at home, or 336,000 Yen (US$2,545) for those living away from home. In the same year, the student charges at national institutions were on average 241,000 Yen (US$1,825). Average living and academic costs of students at national institutions amounted to 775,000 Yen (US$5,870) for at-home students, and 1,231,000 Yen (US$9,325) for away-from-home students.

The amount of loans was therefore significantly greater than the direct cost. But, in comparison to the total costs including living expenses, the loan accounted only for one-third for at-home students, and one-fourth for away-from-home students. For the students in private institutions the loans were set at a slightly higher level to allow for the difference in tuition fees. Nonetheless, similar calculations to those above indicate that the loans fell far short of total student charges: they accounted for only 52 per cent for at-home students, and 69 per cent for away-from-home students. Compared to total expenses inluding living costs, the loan represented 32 per cent for at-home, and 28 per cent for away-from-home students.

Selection of recipients is primarily based upon economic need of the family and academic merit. In 1986, about 200,000 undergraduate students in four-year institutions received *Category I loans* from the *Japan Scholarship Foundation*, and another 54,000 *Category II loans*. These represented respectively 11 per cent and 3 per cent of the total

undergraduate enrolment in four-year institutions. Altogether, 14 per cent of undergraduate students received JSF loans in 1986. Similar comparisons indicate that the chances of receiving a loan were substantially higher for graduate students (40 per cent) or students at technical colleges (18 per cent), but substantially lower for students in two-year colleges (4 per cent) or in special training schools (2 per cent). Since the beginning of the 1970s the chances of receiving interest-free *Category I loans* have remained almost stable -- around 10 per cent in four-year institutions and 4 per cent in two-year institutions. Introduction of the *Category II loans* in 1984 has been the major factor in augmenting the total number of available loans.

Repayment of a loan has to start in principle in the sixth month after graduation, and end within 20 years. There are, however, minimum annual instalments, and the average period for completing repayment is about 11 years. Defaulted or delayed repayment accounted in 1986 for 13 per cent of the total repayment. By employing strict recovery procedures, the past decade saw a significant decline in this rate. Graduates who entered into the teaching professions, as well as those employed in specified research institutions for public purposes, are exempted from repayment after a few years of service.

The JSF finances the funds for loans mainly from three sources: (i) borrowing from the General Account of the national government; (ii) collected repayment of past loans; and (iii) borrowing from the *Fiscal Investment and Loan Funds*.

Borrowing from the General Account constitutes the basis of the funds, accounting for 54 per cent of total revenue in 1986. Although this amount of 74 billion Yen is formally termed as 'borrowing', for it would be eventually lent to individual students and repaid in future to the Foundation and theoretically to the government, it functions in effect as a subsidy from the government. The repayment of loans from past recipients provided another 29 per cent of revenue. Borrowing from the Fiscal Investment and Loan Fund was introduced with revision of the *Japan Scholarship Fund Law* in 1984 as a primary source for the *Category II loans*. The *Fiscal Investment and Loan Fund*, governed by the Ministry of Finance, draws its capital from the Postal Savings and the

National Pension Fund and other sources, and makes loans to public activities given policy priority. The margin between the lending interest of the *Category II loan* and the repayment interest to the Fund is subsidized from the General Account. Over the last decade the amount of the borrowing from the General Account stagnated, which caused a significant decline in its share among the other sources of funds. The loss was partly offset by increased income from repayment. But, the major factor that compensated for the decline was the introduction of the borrowing from the *Fiscal Investment and Loan Fund*. After two years since its introduction, it already accounted for 17 per cent of the revenue of JSF.

3. Background and issues

Financial support to students in Japan predominantly takes the form of loans rather than grants. It ought to be set in the broader context of the financial structure of higher education finance -- more than 90 per cent of government expenditure goes into direct financial support to the national and private institutions of higher education. In that sense it can be said that a substantial amount of grant is given to students indirectly. Nonetheless, the heavy reliance upon loans, rather than grants, remains one of the major characteristics of student support in Japan.

In fact, the heavy reliance on loans as a means of student support in Japan has a long history that dates back to the beginning of modern higher education. In the very early stages after the *Meiji* restoration (1868), there were cases where substantial subsidies were given to students in the new government schools. They were necessary to attract students to new types of education which, being entirely new to the society, promised only uncertain benefit. But as the modern school system developed and educational qualifications became recognized, demand for education started growing. By the end of the 19th Century loans were already the main way of providing support for needy students. Obviously, one of the factors behind such a policy was the financial stringency of the government. But it was also a belief of early leaders of *Meiji* Japan that education should be left as a matter of private

choice. It is not the State but the individual and his parents that has to earn education, for it ultimately benefits the individual. Such an ideology was essential in emancipating the people from the then traditional attitude of reliance on the benevolance of a feudal lord, which, as the first Minister of Education put it, in effect helped to provide opportunities for the ruling class at the expense of poor farmers. Such a policy orientation remained essentially intact through the pre-war period.

The post-war reform of higher education emphasized equality of opportunity for higher education. Under this policy, many local institutions of higher education were upgraded to national universities and the tuition levels in those schools remained at a nominal level. Meanwhile, a new national scholarship system was established under the *National Scholarship Foundation*, which adopted a policy of relying upon loans. In the subsequent periods, the number of recipients of the N.S.F. loans increased but, due to rapid enrolment expansion, the proportion of recipients did not change. In the favourable fiscal conditions in the 1970s, the direct government contribution was extended to private institutions of higher education, and the government contribution to the Japan Scholarship Foundation grew steadily. From 1970 to 1980 the lending to the JSF in real terms multiplied by as much as 2.4 times.

In the 1980s the amounts of individual loans had to be continually increased, just to keep pace with the sharp increases in tuitions in the public and private institutions. Accordingly, the total government appropriation for the Japan Scholarship Foundation continued increasing in real terms but there were signs of mounting pressure of financial stringency, and it became clear that there was little prospect to augment further the funds from the General Accounts to student aid.

Meanwhile, the rapidly increasing tuition levels since the mid-1970s inflated the demand for loans. In an attempt to solve this dilemma, the *Provisional Commission for Administrative Reform* recommended in its First Report of 1981 the establishment of a new type of JSF loan, which would be financed by sources other than the general expenditure of the Government, and lent to the student with interest. The recommendation materialized in 1984 by creation of the *Category II loans* which, as

described above, entail pre-determined rates of interest in repayment. At the same time, the *Japan Scholarship Foundation* started borrowing the corresponding funds from the *Fiscal Investment and Loan Fund*. The number of the *Category II loans* has expanded substantially in recent years.

There have been substantial criticisms against the introduction of fixed-interest loans. At the same time as the *Category II loans* were instituted, the Diet unanimously resolved that the free-interest loans will have to stay as the basis of the scholarship system; the fixed-interest loans should be considered only as a complement to the free-interest loans, and may be abolished when fiscal conditions turned favourable. There have been also concerns about the recent slow growth of the amounts of loans in comparison to tuition increase. The consequence is reflected in the widening tuition-loan gap for the students in private institutions. Thus, the final report released in 1988 from the *National Council on Educational Reform* acknowledged the rising social concerns about the difficulty in paying for the costs of college education, thereby calling for enhancement of the student aid programmes. The recent popularity of commercial loans for college entrance costs is evidence of growing demand for student aid programmes. The loans at high interest rates, however, involve many problems and probably will not enhance equity and educational opportunity. Expansion of loans at a lower, or zero interest rate has become a major policy issue in Japan.

VII. Republic of Korea

There are several limited loan programmes for economically disadvantaged college students in the Republic of Korea. Basically, there are three types of organizations offering student loan programmes. Two of these, the *Civil Servant Welfare Fund* and the *Private School Teachers' Fund*, limit the programme benefit to the children of their own members. The third type is more comprehensive and represents college student loan programmes operated by some financial institutions.

The student loans offered by financial institutions are of three kinds: *Kookmin Bank* loans, local commercial bank loans, and *National Agricultural Co-operative Federation* (NACF) loans. NACF loans are limited to rural students with parents who are NACF members.

1. Arguments for and against loans

The loans offered to college students have not been systematically evaluated since they were first introduced in the Republic of Korea. Not much attention has been given until recently to the efficiency or effectiveness of loan programmes, and the arguments for and against student loans, in general, have not been raised as a public issue. Only sporadic and limited discussions on operational problems have been raised by a few managers of loan programmes.

It cannot be denied that student loan programmes have played a positive role in helping some low-income students to gain access to higher education. But, the student loan programmes are faced with many obvious problems. The programme managers, for example, complain about the difficulty of loan administration and defaults. Financial institutions routinely operate loan programmes, and the government merely appropriates funds to subsidize some portion of interest and provide general supervision. The government subsidizes about 50 per

cent of the interest on the loans offered to students. Thus, students obtain loans at considerably lower interest rate than the market rate.[11]

As interest rates of other financial loan programmes rose with the general liberalization of interest rates in 1988, student loans became the least profitable package for lending banks. Characteristically, student loan programmes deal with a small amount of money per account, compared with other loan packages. Banks express difficulties in administering too many accounts of small amounts.

This problem is not unrelated to the problem of defaults. Three financial institutions offering the programme complain about difficulties of chasing after defaults. *Kookmin Bank*, for example, recorded 21 per cent of student loan accounts in default status, as of September 1990. NACF reports about 4 per cent default rate. These institutions point out that defaulters do not consider repayment of loans as a serious obligation. Many loan recipients also neglect the repayment duty even though they hold 'good jobs' and earn considerable income after graduation. With increased campaigns and attention given recently to collection, the default rate has been slightly reduced in some programmes.

Even so, banks complain that they must forego a considerable amount of loan repayment every year, because the cost of collection on defaults exceed the amount of repayment in many cases, as students move frequently and each account is too small.

2. Patterns of financing higher education and student support

The student financial support schemes in the Republic of Korea include scholarships or grants awarded from various sources: the national treasury, private college foundations; other private scholarship foundations, as well as loan programmes of previously mentioned

11. The average annual interest rate on student loans is 11 per cent. Government pays a subsidy of 5.5 per cent and students are responsible for the remaining 5.5 per cent. In 1989, Government subsidies amounted to 8 billion Won for interest payment on student loans and expects to pay 12.5 billion Won in 1991.

financial institutions. Scholarships from the national treasury are given to students in public teachers' colleges and colleges of education, under military scholarships and of other relief recipients. Foundations of private colleges and private scholarship foundations selectively offer scholarships and grants. These foundations provide 50 to 100 per cent of total tuition fees to students who satisfy specific conditions required by respective organizations. Generally speaking, private college foundations award scholarships on the basis of academic achievements, and private scholarship foundations determine the eligibility according to their own specific missions and objectives. Financial institutions provide primarily loans for low-income students.

Nevertheless, higher education is largely financed by tuition fees that students pay. The amount of tuition fee students pay varies by types of establishments and academic fields. On average, the students of public colleges and universities pay 373,000 Won (approximately US$525) a year, and private college and university students 966,000 Won (US$1,360).

3. Administering student loan schemes

The first student loan programme was started in 1975 by Kookmin Bank, and in 1985, the Government began subsidizing a portion of the interest on student loans. The student loan programmes have now expanded to include schemes operated by NACF and ten commercial banks. As previously mentioned, the eligibility is determined mainly on the basis of economic conditions of the students. Unlike the scholarship or grants, academic achievement is not considered here. However, the future capability (or potential) of repayment is an important determinant of eligibility. Students who already receive another form of support, that is, scholarship or grant, are discouraged. However, if the amount of scholarship award is far less than tuition fees, the student can become eligible for student loans.

The *Kookmin Bank*, ten local banks, and NACF administer all processes of the student loan programme. Each lending institution sends application papers to colleges, processes applications, distributes

individual loan money, collects interest and principal, pursues defaults, and so on.

Each bank offering the programme has two kinds of loan programme: long-term and short-term. The terms of repayment differ for each of the two kinds. In the case of long-term loans, students can defer the repayment of principal for the duration of the study. Upon graduation, they should repay the principal in equal monthly instalments over five years. If a student becomes unemployed or enters military service after graduation, he or she will be given three years of *grace period*. But students are required to pay interest even during the *grace period*. Kookmin Bank and ten local banks collect interest every month, and NACF collects interest every six months. In the case of short-term loans, Kookmin Bank and ten local banks require students to repay the principal in equal monthly instalments within a year from the loan contract and NACF requires a lump-sum repayment after a certain period. The method of collecting interest is the same as for a long-term loan.

4. Feasibility of student loans

Students believe that the biggest problem of the current loan programme is the complexity and the difficulty of the application process itself, especially in finding their financial guarantors. But banks point out that they cannot abolish the guarantor system, because of the default problem.

Another problem relates to the length of the loan contract. Nowadays, an increasing number of students prefer long-term loans. The short-term loan, which stipulates that students repay their loans within a year of the contract, is not practical. This is obviously because students cannot earn enough income to repay their loans within a year. In practice, their parents repay the loan instead.

VIII. Malaysia

1. Introduction

The policies of the government in pursuing economic development and growth through industrialization and diversification have resulted in a great demand for highly qualified manpower, and high levels of government spending to meet the demand for higher education.

To ensure more educational opportunities and wider access to higher education, student support programmes are operated by several major educational sponsoring agencies, such as the *Public Service Department* (PSD), Ministry of Education, and several others.

This summary will focus on the student loans programmes operated by the *Public Service Department*.

2. Public Service Department

The *Public Service Department* (PSD) is the central Government agency responsible for the personnel management of the public service and plays an important and critical role in ensuring the effectiveness of the public service. The main task of the PSD is to increase productivity and upgrade the quality of public service.

The role of the *Training and Career Development Division* of the Public Service Department is to ensure that the public sector is equipped with adequate manpower who are qualified and skilled in order to be more productive and efficient in performing their job functions.

The main training programmes are divided into two categories: Pre-Service Training and In-Service Training. Student loans are provided mainly for Pre-Service Training.

3. Student scholarship programme

Prior to 1987, there were 2 types of financial support schemes for students sponsored by the Public Service Department, firstly the *Scholarship Scheme* and secondly the *Partial Scholarship Scheme*.

The Scholarships (Biasiswa) Scheme. Scholarships were given as a form of reward to students with exceptionally good academic results. Emphasis was placed on those who pursue professional and technical courses in priority areas such as medicine, dentistry, pharmacy, engineering, accountancy and law. In this scholarship scheme, all expenses incurred were fully funded by the Government.

Partial Scholarship (Dermasiswa) Scheme. Partial scholarships were for students whose performance were slightly below the above group and normally pursuing non-professional courses such as general science, social science and humanities.

All students sponsored under these scholarship programmes were bonded with the Government for a certain number of years, and monetary compensation was imposed for any breach of contract. For example, a Medical graduate was bonded with the Government for at least 10 years and an amount of M$.70,000 (US$25,900) imposed as compensation in the case of any breach of contract.

4. The new scholarship and loan scheme

In 1986 the Government decided to reform the existing system of educational support through the scholarship programme and a new scholarship and loan scheme was introduced with a ratio of 20 per cent for scholarships and 80 per cent for loans. The Government established three categories of scholarship and loan schemes as follows:

(i) The Scholarship Scheme. Scholarships are awarded to students on the basis of merit and recognition of academic excellence. Students are required to serve with the Government for a specified period of time.

Therefore, due to the limited number of scholarships provided under this scheme, competition is very keen. Students are not required to make

any repayments for the scholarships but they are however required to serve with the Government as specified in their contract agreements.

(ii) The Convertible loan Scheme. The academic criteria for convertible loans are less stringent than for scholarships, but in addition, loans are awarded on the basis of socio-economic factors and financial needs, so that poor and deserving students are given equal access to educational opportunities.

- Under the convertible loan scheme students are required to make repayment of 25 per cent or 100 per cent of the total financial loan given, depending on the level of grades achieved in the final examination; in other words, those who achieve the best grades are forgiven 75 per cent of their debt.
- Students should start their repayment six months after completion of studies or after securing stable jobs, whichever is earlier.
- All loan applicants should have two guarantors, namely, the parents and one other guarantor being any person below 49 years old and with a monthly income of not less than M$.400 (US$150).
- Students who fail (except due to illness/poor health and any other reasons acceptable to the Government) must repay the actual amount disbursed to them.
- The range of loans given also varies. For example, the amount of loans given to students pursuing studies at local universities is about M$.3,500 (US$1,300) annually compared to about M$.43,000 (US$15,925) to students pursuing studies in foreign universities.

(iii) *Ordinary loan scheme.* There are also loans which are non-convertible. These are normally given on an *ad hoc* basis, such as to private students studying overseas and children of government officers serving in overseas missions.

The new scholarship and loan schemes were first implemented on 1 January 1987. All loans granted are interest-free.

5. Federal education consolidated trust fund

To operationalise this new loan scheme, a special fund known as the *Federal Education Consolidated Trust Fund* was established. The account shall be controlled by the Secretary-General to the Treasury or by an officer duly appointed by him in writing. Receipts and payment for the purpose of the Loan Account shall be accounted for by the *Accountant General* of Malaysia.

From 1988 until 1990, the PSD has offered a total number of 25,236 scholarships and loans to students under the *Pre-Service Training Programme*.

6. Loan repayment

The loan repayment period largely depends on the amount of loan received, for example for a loan of less than M$.5,000 (US$1,850) the repayment period shall be for 12 to 36 months with a monthly repayment of M$.139 (US$52).

Loan repayment shall be made either through salary deduction or direct payment to the PSD, which transfers money collected to the revolving fund of the *Federal Education Consolidated Trust Fund*.

7. Collection

The PSD is now in the process of collecting payments from students who were awarded loans since its introduction in 1987. Up to December 1989, the total amount disbursed was M$.75.100,000 (US$27,815,000) involving 13,195 students. Due to the staggered repayment method, about M$.100,000 (US$37,000) was due to be paid back to the PSD by 31 December 1989. Out of this amount approximately M$.70,000 (US$26,000) (70 per cent) has been collected.

Some of the problems faced in the collection of loan repayment includes the following factors:

(i) Inability of students to repay because of delayed employment.

(ii) Change of addresses among students.

(iii) Continuation of studies from first degree to post-graduate levels.
(iv) Long period of repayment.
(v) Legal process involved.
(vi) Attitude of individual borrower.

Attempts are being made to minimize default payment through the following steps:

(i) Aptitude test for students so as to inculcate good positive values.
(ii) Proper updating of current addresses of students and their guarantors.
(iii) Close monitoring of students' academic performance and date of completion to ensure timely repayment.
(iv) Guarantors as back-up for loan repayments.

8. Employment prospects

Previously, graduate students sponsored by the PSD would normally seek employment in the Public Sector. They have to serve the government service between 7 to 10 years depending on the types of qualifications obtained before they can leave the public service.

However, government policies are now changing, and in order to provide greater support for the private sector, increasing numbers of sponsored students are being released from their scholarship bonds to join the private sector if their services are not required by the PSD.

9. Conclusion

The new scholarship and loan schemes introduced by the government in 1987 can be considered as a long-term plan to reduce financial pressure on public expenditure in financing higher education. The loan account that has been established could help in promoting financial student support and thus, increasing higher education participation without imposing an excessive burden on public funds.

The government also believes that the loan scheme could increase the motivation and sense of responsibility of students and encourage them to work harder and to be more successful in their studies. The scheme could also motivate students to complete their studies on time and to strive harder in order to achieve the level of qualification expected of them.

IX. Philippines

1. Rationale for student loan programmes

Many colleges and universities, both public and private, have some form of loan programme in support of tuition fee payments, so that students having no immediate cash, especially during the enrolment period, are able to defer payment of fees. However, there was no system-wide student loan programme in the Philippines until a new law was passed in 1976, which provided some funding for a national loan programme.

Prior to this, a law in 1969 had established a Students' Loan Fund Authority, as part of "a national policy to give equal opportunity to all persons who desire to pursue higher education". This principle was reiterated in 1976, when a Presidential Decree stated that:

> "it is a declared national policy to democratize access to education by providing opportunities to deserving citizens vital to the development of the national economy."

In 1989, a new government *Act for Assistance to Students and Teachers in Private Education* affirmed the constitutional mandate for the State "to promote and make quality education accessible to all Filipino citizens." This Act gave powers to the *Student Loan Fund Authority* to make available loans for matriculation and other school fees, and educational expenses, for books, subsistence, and board and lodging. It was further stipulated that the amount shall be repaid in two years from the time the student-debtor has acquired employment following completion of the course for which the loan was used, with the interest rate pegged at 12 per cent per annum.

2. Magnitude of the loan programme

2.1 *Education loan and guarantee fund*

While the desire for a loan programme was affirmed in 1969, no funds were made available until 1976, when funds were allocated from the Government Service Insurance System (GSIS); Social Security System (SSS); Philippine National Bank (PNB); Development Bank of the Philippines (DBP) and Land Bank of the Philippines.

Besides the Student Loan Fund, a Guarantee Fund was established, which would be administered by the Department of Education, Culture and Sports (DECS). Under the new Act which provides assistance to students in private education, a Private Education Student Financial Assistance (PESFA) scheme was set up in 1989.

2.2 *Loan beneficiaries*

From 1976 to school year 1988-89, a total of 32,748 students were granted loans under the programme with 25,034 (76.44 per cent) under degree programmes and 7,714 (23.36 per cent) under non-degree programmes. Of the total beneficiaries 65 per cent have completed their respective programmes, 16 per cent dropped-out and 19 per cent are still studying.

Only a very small proportion of full-time students (less than 1 per cent of total enrolment) receive loans under this programme. Slightly over 1 per cent receive scholarships.

The number of loans provided under the *Private Education Student Financial Assistance* (PESFA) programme, which was implemented during school year 1989-90, is expected to reach 15,000 in school year 1990-91. When finances warrant, the coverage will further increase to 25 per cent of all incoming college freshmen and will eventually cover all enrolling students from families with an annual income below a specified limit.

There are plans to introduce a 'socialized tuition scheme' in national universities. Under the socialized tuition scheme, the student pays tuition in accordance with paying capacity, while admission to higher education depends mainly upon academic capability. This will

have implications for student assistance policy in the future, and is likely to increase demand for student loans.

X. Singapore

There are now *three schemes* that provide loans to assist students in higher education in Singapore.

The Student Loan Fund has existed for some time. This fund is a pool where contributions have been accumulated over time and from which loans have been administered to assist students who, for *financial* reasons, are unable to meet their tuition fees, residence charges or other needs. These are interest-free and are administered by the higher education institutions, repayable over a period of up to 5 years after graduation.

A new loan scheme was established in 1989. The purpose of the *Tuition Fee Loan* (TFL) is to ensure that no student is denied access to university education because of financial constraints arising from increased levels of tuition fees. A maximum loan of 50 per cent of the tuition fees can be obtained from the institution. It is repayable over an extended 15-year period after graduation.

Finally, a third opportunity exists for students or their parents who are members of the *Central Provident Fund* (CPF), a national insurance and pension fund. Recent changes in Fund regulations mean that parents may withdraw funds from the CPF to help pay for their children's higher education, but these are treated as loans that must be repaid to the parents' CPF account.

Both public and private universities charge tuition fees, although in public universities the fees are highly subsidised. Since 1988, however, the level of fees in public universities has been increased, and the new system of Tuition Fee Loans has been introduced to help students meet these increased fees.

Among the reasons advanced for introducing changes in fee levels and student support, the following seem to be most important:

- the increasing costs of present systems of student support for higher education;
- the desire to expand higher education participation without straining public funds;
- the expenditure on higher education being disproportionate to expenditure on "other" levels of education;
- the increasing burden of higher education on taxpayers when private (future) returns to individuals are higher.

According to the Minister of Education, large subsidies for the universities had to be reduced so that more funds could be allocated to schools. In 1988, the Government spent some S$.13,000 (US$7,500) to educate a university student as against S$.2,300 (US$1,320) for each non-university student. Such a disparity in allocations was to be rectified through a more equitable distribution among the various educational sectors in the country, with students or their parents contributing a greater share of the costs of higher education through fees and loans.

The *Tuition Fee Loan* was formally introduced in 1988/89 and is administered by the universities. This scheme ensures that no student is denied access to university education because of financial constraints arising from the increase in tuition fees. A maximum loan of 50 per cent of the tuition fees is available and is interest-free during the period of study, repayable after graduation up to a maximum period of 15 years. These loans are available to all students, including foreign students. Interest is based on the average of the prevailing prime rates of the 4 largest local banks at the time of graduation. Repayments may be in monthly instalments or in one lump sum. Guarantors and late payment penalties are also imposed.

Under the *Central Provident Fund* (CPF) approved education scheme, students who are CPF members (very few) or whose parents hold CPF accounts, are permitted to use their savings to pay for tuition fees, if the account exceeds S$.30,0000 (US$17,240). These loans are repayable, with interest, into the CPF accounts on graduation -- so that old-age provisions of parents can be met.

Many scholarships and bursaries are available to deserving applicants meeting stringent requirements, as well as interest-free loans for needy students from the *Student Loan Fund*, administered by the universities. In addition, there are a number of loan schemes operated by private or charitable bodies.

The increase in tuition fees has resulted in increased reliance on loans. Only 17 per cent of students applied for loans in 1988-89, but in the 1990-91 session, about 39 per cent of students received aid from loans, including CPF savings of parents.

In the Singapore context, eligibility for student loans is generally determined by need. Financial need is identified on the basis of parents' or on the student's income levels and the loan is made available without interest during the period of study.

The universities administer both types of loan schemes, through banks designated for this purpose. For private loans, the banks are responsible, while the CPF Board administers loans from the Provident Fund and recovers the loan for old age savings.

Terms of loan repayment are generous and the average size of the loan is not high, so that in general not more than 10 per cent of one's salary need be committed to repayments. Being interest-free, there is some 'hidden' subsidy in student loans provided under the *Student Loan Funds Scheme*. These loans are repayable over 3 to 5 years, depending on the size of the debt.

In the case of *Tuition Fee Loans*, repayment periods of up to 15 years are allowed on a monthly interest basis. The interest is the prevailing average prime rate at the time of graduation.

According to the Government, an arts graduate employed as a Civil Servant, using 10 per cent of his salary to repay his loan, could do so within four years; other disciplines could take between 5 and 9 years. The maximum period of repayment is 15 years.

So far, there does not seem to be difficulties in the administration of these loans, as the records are computer-based and student accountability is assured through guarantors and parents or guardians. Default is virtually absent at the moment. In a well-organized computer-oriented society like Singapore, it is difficult to default unless one is likely to

abscond, in which case the guarantor is taken to task. The loan amounts are too small at the moment to warrant any concern about excessive burdens of debt.

There is some provision for the low-wage earner to repay only a minimum of S$.100 (US$57) per month and this can be stretched to 15 years. In the recession years of 1985-86, those unemployed non-Singapore graduates on bond (arising from Government subsidy being extended to them) were freed from their obligations. They could thus return to countries outside Singapore without fulfilling the conditions. So far, there seems to be no provision for the future unemployed, where loan repayments are concerned. In any case, Singapore students do not have to serve any bond for the Government subsidy provided to them. The full employment economy at present precludes provisions of this nature for unemployed graduates, as the Government is not expected to overproduce high-level manpower. This is not a current issue in Singapore.

XI. Thailand

1. Introduction

The past two decades have seen a rapid democratization of higher education in Thailand as a response to the economic and social development of the country. Not only was there an expansion of traditional universities, especially in regional provinces; at the same time two Open Universities were created, with open admissions policies, and a vigorous private sector has also developed.

At present, Thailand, with a population of 56 million, has 20 public universities, two of which offer open-admission, and 27 private degree-granting institutions under the supervision of the *Ministry of University Affairs*. The 1990 enrolment in these colleges and universities combined is approximaely 720,000.

The open-admission universities have the largest share with approximately 510,000 students followed by 130,000 in selective-admission universities and 80,000 in private institutions. In other words, over 90 per cent of all students are now enrolled in public universities, while about 8.5 per cent are in private colleges and universities.

Close to 12 per cent of the higher education-age group (18-22) now have higher education opportunities. It should be noted also that, through the means of multi-media distance teaching (e.g., through television and radio programmes) employed by the open universities, there are many thousands of individuals, within and beyond the 18-22 age-group, having informal education from the university.

2. Patterns of financing

Nearly 90 per cent of the total expenditure in most public universities comes from the Government's fiscal budget, with only 5-10

per cent derived from students' tuition fees. For open-admission universities on the other hand, the universities are able to draw 65-80 per cent of their total expenditure from tuition fees and other charges and 20-35 per cent from the Government.

In the case of private higher education institutions, there is no direct subsidy from the Government. To cover the cost of operation, the average tuition fee in private institutions is, therefore, about eight times higher than that of public institutions. The average tuition fee in public institutions is 30 bahts (US$1.20) per credit while it is 250 bahts (US$10.00) in the case of private institutions.

A few universities also enjoy other sources of financing, including income from private donations and from certain types of income-generating services rendered to the community.

3. Financial contributions from students and student support

The scarcity of financial resources from the Government now requires the public higher education institutions to be financially more self-reliant and subsequently to seek additional funds from other sources. The increase of tuition fees has become one of the alternatives for public universities since students are now paying a very small proportion of the institutions' operational costs. Raising tuition fees will not only reduce public burden for higher education, but also make the sharing of educational costs more equitable.

Nevertheless, the plan for fee increases must prevent or minimize effects on students from low-income families. Thus attention is now focused on the need to have a well-established student support scheme, side-by-side with the fees adjustments. On the other hand, student financial support is likewise necessary in private institutions in order to cut down private costs and to extend the accessibility for low-income groups.

However, universities offer student financial support in various forms, including scholarships, and loans. In 1990, public universities spent 35.6 million bahts (US$1,413,000) or 0.45 per cent of their operational expenditures for 2,827 scholarships. Yet another

27.8 million bahts (US$1,100,000) for 6,427 university scholarships were received from private donors. The total of 9,254 scholarships covers roughly 7.15 per cent of the 130,000 students in selective-admission universities. There are also several other organizations, foundations, associations, and private philanthropists who provide financial support directly to students. Despite a sizeable amount of scholarships being provided each year, the students' need for financial assistance continues to increase in terms of both the number of scholarships and the amount of money allocated within each scholarship. To supplement the student financial support programmes, ten public and private institutions have developed a student loan scheme which is offered in the form of emergency funds for students with urgent financial difficulties. This type of loan generally has a limited loan ceiling and requires a short pay-back period. A longer-term loan with higher loan ceiling can only be obtained through several educational loan programmes provided by commercial banks. The loans from commercial banks generally offer individuals with collateral security a loan ceiling of approximately 200,000 bahts (US$8,000), with a pay-back period of 1-3 years.

4. Conclusion

At the moment, the *Ministry of University Affairs* is completing the 15-year Long-range Plan for Higher Education covering the 1990-2004 period. The plan itself heavily emphasizes the notion of self-reliance of Thai universities. In financial terms, the notion necessitates the mobilization of additional sources of funding for higher education. As the increase in tuition fees becomes one of the most viable options, serious consideration must be given also to the means to provide support for economically disadvantaged students. The establishment of extensive student loans programmes will become one of the most crucial developments for Thai higher education in the near future.

Annex B

Participants in the Forum

Mawardi Abdullah, Senior Lecturer, Institute Aminuddin Baki, Malaysia.

Adriano Arcelo, Vice-President, Fund for Assistance to Private Education, Philippines.

Mr. Asep, Researcher, Centre for Policy and Implementation Studies, Indonesia.

Mark Bray, Reader in Educational Planning, University of Hong Kong, Hong Kong.

Robert Dawson, Human Resource Specialist, Asian Development Bank, Australia.

Motohisa Kaneko, Associate Professor, Research Institute for Higher Education, Hiroshima University, Japan.

David Klaus, Senior Operations Officer, Asia (Country Department II) Population and Human Resources Division, World Bank.

Abdul Habib B. Mansur, Director, Training and Career Development Division, Public Service Department, Malaysia.

Bill Mutton, Assistant Secretary, Policy and Review Branch, Commonwealth Department of Employment, Education and Training, Australia.

Mayling Oey-Gardiner, Researcher, Centre for Policy and Implementation Studies, Indonesia.
G. Shantakumar, Senior Lecturer, Department of Economics and Statistics, National University of Singapore, Singapore.

Li Shouxin, Chief, Educational Planning Division, State Planning Commission, China.

Wichit Srisa-An, Permanent Secretary, Ministry of University Affairs, Thailand.

Jandhyala B.G. Tilak, Senior Fellow and Head, Educational Finance Unit, National Institute of Educational Planning and Administration, India.

International Institute for Educational Planning (IIEP):
Jacques Hallak, Director
Claude Tibi, Senior Adviser
Maureen Woodhall, Senior Consultant

IIEP publications and documents

More than 650 titles on all aspects of educational planning have been published by the International Institute for Educational Planning. A comprehensive catalogue, giving details of their availability, includes research reports, case studies, seminar documents, training materials, occasional papers and reference books in the following subject categories:

Economics of education, costs and financing.

Manpower and employment.

Demographic studies.

The location of schools (school map) and sub-national planning.

Administration and management.

Curriculum development and evaluation.

Educational technology.

Primary, secondary and higher education.

Vocational and technical education.

Non-formal, out-of-school, adult and rural education.

Copies of the catalogue may be obtained from the IIEP on request.

The International Institute for Educational Planning

The International Institute for Educational Planning (IIEP) is an international centre for advanced training and research in the field of educational planning. It was established by UNESCO in 1963 and is financed by UNESCO and by voluntary contributions from Member States. In recent years the following Member States have provided voluntary contributions to the Institute: Belgium, Canada, Denmark, Finland, Iceland, India, Ireland, Norway, Sweden, Switzerland.

The Institute's aim is to contribute to the development of education throughout the world, by expanding both knowledge and the supply of competent professionals in the field of educational planning. In this endeavour the Institute co-operates with interested training and research organizations in Member States. The Governing Board of the IIEP, which approves the Institute's programme and budget, consists of eight elected members and four members designated by the United Nations Organization and certain of its specialized agencies and institutes.

Chairman:

Victor Urquidi, (Mexico) Research Professor Emeritus, El Colegio de México, Mexico.

Designated Members:

Charles Boelen, Chief Medical Officer for Educational Planning, Methodology and Evaluation, Division of Health Manpower Development, World Health Organisation.

Goran Ohlin, Assistant Secretary-General, Office for Development, Research and Policy Analysis, Department of International Economic and Social Affairs, United Nations.

Visvanathan Rajagopalan, Vice President, Sector Policy and Research, Policy, Planning and Research, The World Bank.

Jeggan C. Senghor, Director, African Institute for Economic Development and Planning.

Elected Members * :

Isao Amagi, (Japan), Special Advisor to the Minister of Education, Science and Culture, Ministry of Education, Science and Culture, Tokyo.

Henri Bartoli, (France), Professor, University of Paris I, Pantheon-Sorbonne. Paris.

Mohamed Dowidar, (Egypt), Professor and President of the Department of Economics, Law Faculty, University of Alexandria.

Kabiru Kinyanjui, (Kenya), Senior Programme Officer, Social Sciences Division, International Development Research Centre, Nairobi.

Alexandre P. Vladislavlev, (USSR), First Secretary, All-Union Council of Scientific and Engineering Societies of the USSR, Moscow.

Lennart Wohlgemuth, (Sweden), Assistant Director-General, Swedish International Development Authority, Stockholm.

* (one vacancy)

Inquiries about the Institute should be addressed to:
The Director, International Institute for Educational Planning,
7-9 rue Eugène-Delacroix, 75116 Paris

Educational Forum Series No. 2

The systems of financial support to students in higher education which have been in place for several decades are today coming under scrutiny in many countries -- both industrialized and developing -- and Governments are beginning to demand that students should meet a greater share of the costs of their higher education, either before or after they graduate.

Some countries are actively considering the introduction of loans to students; others are poised to put greater reliance on the loan systems they have been operating in recent years; yet others have rejected the possibility of introducing loans and are looking into the feasibility of introducing special tax schemes for students in higher education.

The subject of student loans has already reached a high point on the educational agenda in several countries and it appears certain that it will receive a great deal of attention in the months ahead. What has been largely missing from the discussion so far, however, is reference in the debate in any particular country to the manner in which other countries are tackling the same problem.

The International Institute for Educational Planning is therefore holding a series of educational forums devoted to the question of loans to higher education students, focusing on some of the principle aspects of the subjects now being addressed by governments, administrators, academics, parents and students alike.

The first forum specifically examined the situation in Western Europe and the USA and a report of this has been published. The present booklet reports on the second forum in the series, held in Asia.

Further forums to be organized by the Institute will turn their attention to other regions of the world.

The author

Maureen Woodhall is Senior Lecturer in Higher Education Finance at the Centre for Higher Education Studies, University of London and a Senior Consultant of IIEP. She has written widely during the past 20 years on the subject of student loans.